LIFE INSURANCE: ITS ECONOMIC AND SOCIAL RELATIONS
EDITED BY
SOLOMON S. HUEBNER

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THE SOCIOLOGY OF LIFE INSURANCE

BY

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TO

HONORABLE WILLIAM A. DAY

A GREAT EXECUTIVE; A WISE AND JUST MAN;

A GOOD FRIEND

EDITOR'S PREFACE

This volume on *The Sociology of Life Insurance* is one of a series entitled "Life Insurance: Its Economic and Social Relations," which also includes volumes on *The Economics of Life Insurance, Wills, Trusts and Estates, Taxation, Education and Philanthropy, Saving, Credit and Investment,* and *The Law of Salesmanship.* The purpose of the series is to provide a specialized life insurance literature, in textbook form, in the interest of (1) making available to many business and professional groups one or more books of large practical usefulness; (2) giving to teachers of the social sciences a special literature identifying life insurance with their subjects of specialization; (3) furnishing an opportunity for further systematic study to those who are pursuing the subject of life insurance in universities and colleges; and (4) offering a similar opportunity to those already engaged in the life insurance field.

This volume on *The Sociology of Life Insurance* explains the vital bearing of life insurance upon numerous problems that claim the interest of the sociologist. In fact, many of the most harrowing social problems might be substantially eliminated through a general and adequate use of life insurance. The author aims to present fully the vital relations of life insurance, for constructive good, to such major social problems as poverty, disease, crime, old-age dependency, inadequate education, unemployment, needless waste of life and estates, and ineffective philanthropy. Students of sociology and those engaged in social and philanthropic work will find the subject matter of the volume highly suggestive and useful. Those engaged

in the life insurance field will derive from its perusal a much clearer vision of the social significance of their calling. Moreover, the subject matter of the book should appeal to all who have an interest in community effort designed to promote social progress.

The volume was in press when the author's untimely death removed from the life insurance profession one of its most prominent members. It represents Mr. Woods' last contribution in the field of his great success and deep professional interest.

S. S. HUEBNER.

PREFACE

Life insurance in the United States and Canada is one of the most interesting social forces of the day. It is at once an important social service enterprise, a financial institution of colossal magnitude, and an economic device of far-reaching social significance. It is so inextricably bound up with economic and social considerations that it is quite impossible to separate the two, but as far as possible, the following pages will treat primarily of its social aspects. The amount of life insurance in force has increased so phenomenally in recent years that it seems safe to believe that it will wield a much more potent influence in the future than it has in the past and that its importance to the study of sociology will become increasingly manifest.

Sociology studies, among other things, the history of human society and social phenomena, the progress of civilization, and the laws controlling human intercourse. Under our present industrial system social problems are many and varied. Although the richest nation in the world to-day, the United States still battles with poverty, disease, crime, old-age dependency, inadequate education, unemployment, industrial unrest, needless wastes of life and property, and a host of attendant minor evils. It is a paradox that so many evils should exist to the extent they do in a nation rich enough to afford every inhabitant an annual income sufficient to secure not only the ordinary comforts of life, but semiluxuries as well.

The civilization of the United States has been extremely individualistic in nature. Beginning with the earliest set-

tlements on the bleak coast of New England, each settler to a large degree was a law unto himself He earned his own precarious living and that of his family by farming the barren soil of that rocky coast or hunting wild animals in dense forests infested with hostile Indians. He raised the raw materials for clothing which women members of the family made up into garments, manufactured his own crude furniture, built his own house, and even molded bullets for defense in case of Indian attacks.

After the American Revolution sturdy frontiersmen again severed communication with civilization and pressed westward over the Alleghenies to the great Northwest Territory, there to establish new communities in lands yet to be conquered from nature and the Indians. History but repeated itself in the gold rush to California in '49 and again a few years later in the westward migration of eastern farmers to the more fertile prairies of the West. Finally, in the late nineties, Alaska furnished the last frontier for the adventurous American pioneer and his family, where he could carve out a career comparatively unhampered and unaided by society.

It is easy to understand why life insurance is so extensively established in a country where tradition has it that each man must work out his own salvation and that of his family. There were no old-age pensions, widows' allowances, or social insurance schemes in America's pioneer days, but they came rather with the development of civilization, the growth of great cities, the evolution of the industrial system, and our increasing wealth. When it is no longer possible for laborers to migrate to free lands where they can wrest a better living from the soil than they can enjoy in crowded cities working for low wages, social schemes guaranteeing them at least the necessities of life offer strong attractions. Nevertheless, the tradition of the pioneer to be self-reliant persists and accounts in large

measure for the vast amount of life insurance carried individually by Americans for the benefit of their families. In an older country with no strong traditions of individual self-sufficiency, the demand for social insurance and other social measures of caring for the weak in the struggle for existence naturally takes the place of individual provision for such contingencies so common in this country.

Whether life insurance be paid for by individuals or by society matters little so far as the ultimate social benefits are concerned. Still, its effect upon individuals is far more salutary in the first instance, since they then take pride in the fact that they personally are making provision for the care of loved ones after they are gone. The principle, however, and the ends it serves are the same in either instance Life insurance, therefore, deserves the careful study of all those who would determine what has been, and what is likely to be, accomplished by it in the near future.

This book is an effort to present the relation of life insurance to certain social problems that command the interest of every student of sociology and others concerned with our social welfare. It is by no means intended to suggest life insurance as a panacea for social ills It is essentially a remedial agent, although possessing great preventive tendencies, especially in promoting thrift While it cannot avert death or old age, it can prevent or mitigate certain social losses often attendant upon them, and it is the purpose of this volume to point out these services to society. If the present work adequately introduces the institution of life insurance to the careful student of social problems, the earnest hope of the author will be fulfilled.

The author hereby expresses his grateful thanks to all those who have aided in the preparation of the volume, particularly to Mr. Clarence B. Metzger, who has conducted the research upon which this book is founded in a

most careful, painstaking and accurate manner, who prepared the statistical material and index, and who is largely responsible for the careful revision of the entire book; to Mr. Charles F. Creswell, who wrote Chapter IX; and to Miss Gertrude F. Neumann, who ably handled the manuscript through several revisions to its ultimate conclusion.

E. A. W.

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CHAPTER I

LIFE INSURANCE AND THE VALUE OF HUMAN LIFE

What Insurance Is

Insurance is a method by which a group of persons, each in danger of some loss whose incidence is uncertain, can distribute such loss when it occurs to any of them, over the entire group. This is made possible by the application of the law of average of large numbers, which in the present instance means that what is chance or contingency for the individual becomes a regular normal happening when great masses of men are considered.[1]

One of the first essentials of any scheme of insurance is social coöperation, the banding together of many individuals to protect themselves against common hazards. Under the present capitalistic organization of society, there are certain risks which every individual must face in everyday life, the untimely incidence of any one of which might transform him from a self-supporting producer in comfortable circumstances to-day into a dependent cripple or pauper to-morrow.

[1] E. H. Downey, *Workmen's Compensation,* p. xvii.

It is recognition of these dangers common to all that causes men to combine their resources for mutual protection, each contributing something towards a fund to provide against the economic losses of the unfortunate. The prime essentials of insurance, then, are coöperation and mass provision or saving against economic losses. The result of insurance is more nearly to stabilize economic conditions by amortizing losses, which, in turn, has the effect of preventing extreme suffering on the part of a few individuals. The entire group, rather, bears the loss which reduces the suffering of each individual to a minimum.

The Various Social Hazards

The dangers that beset society might be classified generally into property hazards and personal hazards. The principle of insurance was first applied to the former and it has developed along with the various kinds of property, until there are now over 170 kinds of coverage, which are constantly expanding.

Seldom, however, are property losses as serious in their social effects as productive life losses. A house may burn down and cause its owner and his family great inconvenience or suffering, but if his health continues and he is able to work for a time, the monetary loss may be recouped and the house rebuilt. If, however, instead of the house burning down, the owner dies, his productive power is lost forever, and if he leaves insufficient means to provide an income for his family, it has to be supported by society. If instead of dying the owner is incapacitated through accident or illness, the effect upon society is the same or even

worse, for he may now have to be supported, in addition to his family. Applied broadly to social progress, property losses, while social in effect, are chiefly a matter of individual suffering, while productive human-life losses are both individual and social concerns. The aggregate of productive-life losses contributes materially to the causes of our major social problems of poverty, disease, dependency, and crime. Moreover, the loss of life is certain to occur; its productive value is certain to terminate either prematurely through incapacity from accident or sickness and death, while property losses are only remotely possible.

The Hazards of Productive Life

The chances of present-day life that threaten every individual might be classified as follows, according to the degree of importance to the individual:

1. Premature death
2. Physical disability
3. Unemployment
4. Old-age dependency

It seems well to consider to what extent they are controllable by human ingenuity and foresight and to what extent they are inevitable and must be provided for by remedial measures.

1. *Premature Death.*—It is obvious that if every person born lived to say, the age of fifty-eight, there would be a great gain to society, for all people brought into the world would then be enabled to work a number of years and thereby pay back to their families or society the cost of bringing them into the world and

giving them food, clothing, shelter, education, and recreation over a third of their lifetimes. Individuals, for example, might be considered liabilities for eighteen years and assets for the other forty. In the latter period they would pay back not only their own cost of production, but also contribute much to the support of the next generation.

However, in reality any given individual may die the moment after birth or he may live for over a hundred years. Indeed, death rates are highest for infants and the aged and lowest in early and middle life. Thus many infants die during the first year or even month of life, and a certain number of individuals die each year thereafter until all are finally dead, the last ones at very advanced ages. The average length of life for the group at birth is called the "expectation of life" and at present is about fifty-eight years [2] in this country. This is meaningless for the individual and is useful only in reflecting the expectation of life of the entire population.

Premature death is a relative term. Strictly speaking, the death of an individual might be said to be premature, in a social sense, when he dies before he has had an opportunity of defraying the expenses that have been incurred in bringing him into being. For instance, the deaths of infants, children, and those adults who have earned but little income might be said to be premature. The term, to be more useful, however, should also include all those adults who have since defrayed their own cost of production and rear-

[2] Metropolitan Life Insurance Company, Statistical Bulletin, July, 1925, p. 1.

ing and are now raising children or providing for other dependents of their own. This group is the more important because the death of one of its members is a loss not alone to one or two parents, who are usually self-sustaining, but also to dependent wives and children. Premature death varies with the individual case, depending upon the age of the individual and the number and age of his dependents. Any time is premature where the breadwinner has not succeeded in providing for the future sustenance of his dependents until capable of self-support.

2. *Physical Disability.*—Physical inability to work and earn a living arises out of accident or ill-health, either physical or mental, inherited or acquired. An illness may become chronic and render an individual helpless, causing him to become a charge upon his family or society, or a bad accident may cripple him in such a manner as to preclude his earning a living. Man can never entirely control sickness and accident, although the latter is more controllable than the first. An individual may be very cautious but be injured by another's [3] carelessness.

Disability is either complete or partial, temporary or permanent. In any case there is a loss to the individual in wages while absent from work, plus the cost of medical care and related expenses.

3. *Unemployment.*—Death and physical disability are both human or biological hazards and controllable to a very limited extent. They are the inevitable chances which would seem to be inherent in any

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[3] See below, Chapter II, p. 29.

scheme of political or social organization. On the other hand, unemployment is neither inherent nor necessary in a well organized society. It is not so much a problem of the individual as one of the maladjustment of industry.

The unemployed are composed of those who have seasonal occupations, those out of work because their former jobs played out or their employers failed, the sick, crippled, or defective, and the lazy, shiftless, and indolent. Probably in the majority of cases, however, unemployed workers are very willing to work but can find no demand for their services. Unemployment does not involve a life hazard and is, therefore, without the scope of this work.

4. *Old-Age Dependency.*—If one lives to be old in present-day society, he runs the danger of being dependent for a livelihood upon his children, his friends, or organized charity. There are no adequate data available showing the extent of old-age dependency in this country, but it is considerable, and, with increasing complexity of living conditions, it seems likely to become even a more important problem in the future.

In a simpler civilization than that of to-day, the handicraftsman could work to a ripe old age or until debility set in and precluded further effort. To-day, however, with intense, high-speed methods of production, workmen break down prematurely from physical and mental strain. Progress in mechanical inventions has moved along at a much more rapid rate than physical adaptation of the human body to new movements and methods. Workmen in many in-

dustries soon wear out and become charges upon society and must often be supported for years before their real usefulness would be at an end in a simpler set of living and working conditions. Their superannuation is the price society pays for its material wealth and type of civilization.

While old age far from presumes dependency, it is, nevertheless, inevitable for many workers who have not been able to set aside an appreciable surplus during their earning period to be used in their old age. The accumulation of savings is beset with many hazards. Illness of the worker or members of his family; children who must be fed, clothed, and trained; recurring periods of unemployment during which meager savings are often wiped out; and sudden changes in the cost of living are but a few of the causes precluding systematic saving on the part of workers with low incomes. Dependency can only be averted by systematic thrift over a long period of years and to that extent only is it controllable. Probably the annual income of many workers is too low to permit of systematic savings, but there are a vast number of workers who invest in stocks, bonds, and useless luxuries of various sorts who could instead provide against dependent old age.

Social Insurance for Social Hazards

The insurance principle of protection has been applied to each of these risks and a number of minor additional ones that threaten society. In some countries the administration of the insurance is carried on by the State, in which instance the protection is gener-

ally termed "social insurance," although, strictly applied, the term refers rather to those forms of insurance which protect the wage-earning class. Social insurance administered by the State, though common abroad, has not developed to any appreciable extent in this country, with the exception of workmen's compensation for industrial accidents. Massachusetts and Wisconsin both carry on the life insurance business and the Federal Government carries it on for certain of its present and former employees.[4] In the case of the two states, the volume of business transacted is relatively unimportant and unfortunately the tremendous amount formerly carried by the Federal Government has fallen off precipitously since the Great War. The vast bulk of life insurance business in this country is carried on by private enterprise and voluntary associations and the phenomenal extension of the amount of life insurance in force has been due largely to the initiative of private insurance companies. Thus in the agency even as in the act, the practice of providing against economic and social hazards is preëminently individualistic.

Workmen's compensation insurance for industrial accidents to workers is a form of insurance particularly adapted to state administration and is now administered by forty-three states and three territories.[5] Such compensation covers death by accident and total and partial disability, which may be either temporary

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[4] *Statistical Abstract of the United States*, 1925, pp 147-149

[5] Insurance Department, Chamber of Commerce of the United States, "Tendencies in Workmen's Compensation," Insurance Bulletin No. 27, p. 1.

or permanent. In the case of death, an attempt is made to pay the family of the worker a certain percentage of the worker's wages for a period of years, which in effect is analogous to paying a small part of his capital value to his dependents. In the case of temporary or permanent disability, the worker is paid a percentage of the wages he might have earned if able to work. The principle of compensation laws is that employers should bear the cost of human hazards incident to the business, but in effect compensation benefits are woefully inadequate, both to workers partially or permanently disabled and to dependents who receive compensation for a worker's death. However, the laws are being constantly improved, the benefits augmented, and the waiting periods reduced between the time of accident and the beginning of compensation payments.

The system is a great step forward from the old custom of making the workman assume all the risks of the occupation and it marks a recognition on the part of society that the costs of such accidents should be included in legitimate costs of production, the same as insurance of machines against fire, flood, breakage, and other possible property damage.

Occupational disease is a very similar hazard but is not now generally covered under state compensation laws. In a few states compensation for occupational diseases is *implied* to be covered under the laws but most states specifically exclude it.[6]

[6] *Ibid.*, pp. 4-12.

Definitions of Life Insurance

Life insurance is the act of providing a guaranty of indemnity against the financial loss that will result upon the death, disability, or old age of a person who pays for or contributes to the support of or is valuable to others. From the standpoint of society, it has been defined as "a social device for making accumulations to meet uncertain losses through premature death, which is carried out through the transfer of the risks of many individuals to one person or a group of persons." [7]

From the standpoint of the individual, it has been defined as "a contract whereby for a stipulated compensation, called the premium, one party (the insurer), agrees to pay the other (the insured), or his beneficiary (heir), a fixed sum upon the happening of death or some other specified event." [8] The insurer may be a person, a voluntary association, a corporation, or the State; the beneficiary may be a member of the insured's family, his estate, a business associate, a charitable or philanthropic organization, or any person or group of persons who have an economic interest in the life of the insured. This interest is technically known as "the insurable interest" of a beneficiary in the insured.

Life Insurance Covers Main Social Hazards

Life insurance is designed to replace the economic loss resulting from the untimely death, disability, or

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[7] Allan H. Willet, *The Economic Theory of Risk and Insurance,* p 106.

[8] S. S. Huebner, *Life Insurance,* p 3.

superannuation of breadwinners. In a capitalistic organization of society, based upon a money economy such as ours to-day, the chief assets of workers are their lives, their ability to work and earn a living. From the standpoint of income, human workers are the same as machines. They represent a capital value which produces goods or services and thereby earns income. They are worth either what they cost to produce or the capitalized value of their annual earnings. Their cost of production includes the cost of being born, raised, clothed, fed, educated, and trained to the productive period; their capitalized value is estimated by multiplying their average annual incomes by the number of years they will probably work and earn an income.

Human beings are chiefly valuable in the latter sense, for it represents their value to family dependents. Life insurance is based upon this conception and in effect it replaces such capital at the death of the worker to the extent of the insurance carried. If his productive ability is cut off permanently by disabling accidents or illness, appropriate provisions in many insurance contracts provide for continued income to the worker. Thus life insurance covers the two greatest hazards of *productive life.*

Life insurance is also adapted to provide for old age either through the combination of insurance and annuities or the cash value of old insurance policies, provided by reserves. Thus one can carry a policy on his life for the protection of his family while he has family responsibilities and when his children become self-supporting, he can convert his insurance into an

annuity which will yield a monthly income to him for the remainder of his life.

While life insurance is generally inapplicable to the problem of individual unemployment, it is often very closely related to mass unemployment. Not infrequently the success of a large enterprise, employing thousands of workers, depends upon the technical skill, managing ability, or personality of a single individual or small group of individuals. If he dies suddenly, the business may suffer very great loss in curtailed production, limited credit, or impaired good will, with the result that many of the firm's workmen may be thrown out of jobs. The firm can and should be protected by life insurance on such key men. In case of their premature death or incapacity, then, the insurance proceeds will be available to the firm and it will thus be enabled to carry on business and so keep its employees on the job.

Individual Uses of Life Insurance

The first service of life insurance is to create life insurance estates for individuals to replace their life value. Thus there are a number of definite financial needs which life insurance covers. It can be provided for these purposes:

1. For the payment of debts at death
2. To cancel mortgages
3. For the education of children
4. For bequests
5. For monthly income to the family
6. For income to the insured in case of disability
7. For old age

1. *For the Payment of Debts at Death.*—Under present economic conditions in this country, it is practically impossible for an individual, particularly the head of a household, to die without leaving some debts, such as bills for light, heat, clothing, shelter, furniture, notes, medical care, and a host of miscellaneous items ever present in estates because of modern retail credit conditions. These in the aggregate constitute material shrinkage or loss in estates, but it is possible to anticipate them and provide for their payment through a "clean-up" life insurance policy.

2. *To Cancel Mortgages.*—A mortgage on a home is frequently the largest, as well as often the most important, debt a family has to meet at the death of the breadwinner. It is highly desirable for the mortgagee to carry a life insurance policy for the amount of the mortgage so that in the event of his untimely death, the mortgage will be canceled instead of foreclosed. Thus he can assure a home for his wife and children after he is gone and be reasonably assured that the family will be kept together and enabled to live in a manner to which they have been accustomed.

3. *For the Education of Children.*—Higher education is becoming increasingly necessary in this country and the future welfare of children depends largely upon their present training. Since college educations, and often high-school educations, for the most part must be financed individually, there is great need for funds that will assure the higher education of children after the father or mother is gone. Such a fund is admirably supplied by life insurance on either parent.

4. *For Bequests.*—Bequests to charitable and edu-

cational institutions are often delayed by embarrassing litigation with heirs, tax complications, or legal technicalities and delays in settling the estate, yet most institutions are in need of ready money. Cash in the present is more useful to them than securities to be received in the indefinite future. Life insurance thus is one of the most desirable mediums of furnishing bequests in cash immediately upon the death of the donor.

5. *For Monthly Income to the Family.*—Policies of life insurance are now written which provide for certain monthly income for the family for a number of years or for as long as its members live, which will defray the ordinary expenses of living for the family after the breadwinner is gone. Appropriate provisions in most life insurance contracts provide for the payment of the policy to the heirs over a period of years, but, unfortunately, few people take advantage of this wise precaution. Money left in lump sums is far too frequently easily spent for unnecessary items or invested in worthless enterprises. A life income policy or income option assures a *steady income* to heirs and thus makes provision for their future needs without giving them enough money at one time to encourage foolish purchases or tempt the cupidity of fraudulent promoters. An income provided for a period of years, even if not for the whole of life, may provide the income necessary for the maintenance of the family until they are grown and educated and can support themselves and other members of the family.

6. *For Income to the Insured in Case of Disability.*—Many life insurance policies carry a provision for

keeping the policy in force in the event of the total and permanent disability of the insured. Such provisions vary widely in content and the type of benefit granted the disabled policyholder, but in general they provide three things:

(*a*) That further premiums on the policy will be waived during the period of disability.
(*b*) That the policyholder will receive an income of ten dollars per month per thousand dollars of insurance coverage, the face value of the policy.
(*c*) That the face value of the policy will be paid at maturity, according to the terms of the contract, without deduction for the disability payments that have been made.

This provision appeals very readily to those dependent upon their personal services for an income, since disability to them is a more imminent hazard than premature death. It has been estimated that about 38 per cent of the new life insurance policies issued recently include a disability provision and the benefits promised on outstanding policies now total more than $3,200,000,000 yearly.[9]

7. *For Old Age.*—Much stress has been placed upon life insurance for family dependents in this country but very little upon provision for one's old age. Recently, however, with investigation of the probable extent of old-age dependency in several states, the subject of annuities has been brought to the fore. After an individual has provided for his family,

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[9] Edward H. Marshall, "The Development of Adequate Protection for the Disabled Life Insurance Policyholder," *The Annals,* March, 1927, p. 42.

he should give serious thought to plans for assuring himself a living after he has passed his productive period. Through life insurance, one can provide for the financial needs of his family while they are dependent, and when they have become self-supporting, he can convert the value of the insurance into annuities which will provide funds for his own old age.

Kinds of Life Insurance

There are many kinds and forms of life insurance contracts and they can be classified in several ways. According to method of issue and premium payment, policies might be grouped as regular, industrial, and group. This is the most general classification and is one most frequently used when insurance figures are quoted.

Regular or ordinary insurance has been defined as "that form of life insurance under which the unit amount of insurance is one thousand dollars (the amounts of insurance in particular policies being multiples thereof) and for which the premiums are graded according to the age at issue and are payable either by a single premium or by continuous annual premiums or by a limited number of annual premiums. Annual premiums are payable at the beginning of each policy year, but may be payable in semiannual, quarter-annual, and in some companies monthly installments." [10]

Industrial or weekly premium insurance is "intended primarily to provide insurance for persons

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[10] William Breiby, *The Essence of Life Insurance*, p. 6.

engaged in industrial occupations who receive weekly wages. Under this form of insurance, the premiums are payable weekly in unit amounts of one or five cents and multiples thereof, and the amount of insurance provided by a unit weekly premium is determined by the ages of the insured at issue of the policy. Under this form of insurance, a representative of the company, an agent, or collector, collects the premiums by personal call, whereas under the other classes of insurance, the insured sends the premiums to the office of the company or to the company's agency. Though the premiums under industrial insurance are payable weekly, usually, in practice, four weekly premiums are collected in advance."[11]

Group insurance is defined "to be that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employee jointly, and insuring only all of his employees, or all of any class or classes thereof determined by conditions pertaining to the employment, for amounts of insurance based upon some plan which will preclude individual selection, for the benefit of persons other than the employer; provided, however, that when the premium is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees not less than seventy-five per centum of such employees may be so insured."[12]

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[11] *Ibid.*

[12] William J. Graham, "A Dozen Years of Group Insurance," p. 4.

Intermediate insurance is similar to regular insurance but less in amount, usually being from $250 to $500. The premium rates are usually more than for regular insurance and often individuals unable to get standard insurance are acceptable in this class of risk.

These kinds of insurance are all on the legal reserve basis, that is, they comply with strict legal requirements with regard to providing and maintaining the reserve funds necessary to fulfill all obligations assumed in the life insurance policies.

In addition, there are several kinds of assessment and fraternal life insurance written by assessment associations or fraternal organizations. Such organizations provide "mutual insurance for their members and have certain social or other features which serve to bind the members together; the rates charged for insurance in the fraternals are called 'assessment rates' instead of 'premium rates,' to indicate that the members are 'assessed' such sums as are necessary to cover the cost of the insurance protection. The members are subject to increased or additional assessments in case the society's funds are insufficient to defray its obligations. Stock and mutual companies cannot call for more than the contract premium, even though that prove lower than should have been charged." [13]

At the end of 1926 there were probably eleven billion dollars of assessment and fraternal insurance in force and possibly eighty billions of insurance in legal reserve stock and mutual companies.

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[13] Breiby, *op. cit.*, p. 6.

Stock and Mutual Insurance Companies

The life insurance business in this country is carried on chiefly by private enterprise in the form of stock and mutual life insurance companies. Stock companies are owned by stockholders who receive any profits accruing from the business, although some stock companies pass on some of their profits to their policyholders. Mutual companies are owned by their policyholders and guarantee to provide insurance protection at actual cost. Any profits accruing from the business are passed on to the policyholders. The largest life companies are mutual and the greatest volume of life insurance written annually is on the mutual basis. In practice there is little difference in the cost of insurance between stock and mutual companies since the former have approximately to meet the rates of the latter under the law of competition.

Forms of Regular Life Insurance Policies

Life insurance policies again might be classified by the length of time they offer protection, as for the whole life or for a term of years.

Whole Life Policies.—Whole life policies contract to insure an individual for a lifetime and the face amount of the policy is payable only at death. They might be divided into two groups:

1. Ordinary life policy, sometimes called straight life
2. The limited payment life

All life policies are the same except for the number of years premiums are payable and the surrender, or cash value of the policies, that is, the sum that insured

persons would receive if they terminated such policies by "reselling" them to the insuring company. Ordinary life premiums (payments of the insured person) are payable as long as the insured lives, while on the limited payment life plan premiums are payable for a certain number of years as specified in the contract, after which the policy is "paid up" and the insurance continues without further premium payment for the balance of the insured's life. The premium-paying period is usually 10, 15, 20, and 30 years.

Term-of-Years Policies.—"Term of years" insure an individual for but a certain number of years as stipulated in the contract, at the end of which time the insurance ceases and the contract ends. Term-of-years insurance policies may also be divided into two groups:

1. Endowment insurance, which is a guaranteed savings plan. The face amount of the policy is payable to the insured at the end of the endowment period or the designated heir (beneficiary) in the event the insured dies before the end of the term of years. All endowment policies are the same, differing only as to the number of years they are to run and consequently in the amount of premiums and surrender values. They give protection only for the number of years they are in force, the contract ending at that time.

2. Term policies, which give temporary protection only for a certain number of years. They are alike except for the number of years they are to run and consequently the amount of premium. They give protection only and have no investment feature in them

in the form of accumulation of reserve, hence they have no surrender values. Their chief advantage is that they may be exchanged for a permanent form of insurance within certain periods without physical examination.

All other forms of policies are based upon these fundamental forms or a combination of one of them and some form of an annuity.

Stabilizing Effect of Insurance

All forms of insurance have for their purpose the distribution of risks among many individuals and over comparatively long periods of time, so that the effect of insurance is to stabilize economic and, hence, social conditions. Death claims paid the families of insured decedents enable them to live for some time after the breadwinner has passed away. Could the entire financial value of every worker be capitalized to the full extent by life insurance, the great need of funds for public and private charity work would largely disappear. The capitalized value of most any worker's earnings would provide for his family during the period of their dependency.

The Money Value of Human Life and Life Insurance

It is becoming quite generally acknowledged that most individuals have a distinct money value aside from their sentimental values. Such a value, as indicated above, might be either the cost of their production, that is, the cost of their rearing to any given age; or, in the case of those engaged in productive enterprise, it might represent the present value of

their current and future earnings. In the present instance, we are concerned with the money value of wage- and salary-earners to their families, which furnishes the basis for the institution of life insurance.

The money value of the American population at the close of 1926 has been estimated at $1,650,000,000,000[14] about five times the estimated national wealth. The total amount of all kinds of life insurance coverage probably totaled $95,000,000,000.[15] Thus American life values were but 5.7 per cent covered by life insurance. While life insurance has been increasing phenomenally in the last few decades, the capital value of the population has likewise been increasing. The following figures show this trend over the last two decades:[16]

Year	*Percentage of American Life Value Covered by Life Insurance (All Kinds)*
1900	0.019
1904	.039
1912	.031
1922	3.919

Value of Life Losses

Another method of measuring the extent of life insurance coverage is to measure the value of the lives lost annually with the amount of life insurance death claims paid in the same period. It has been estimated that 3.6 per cent of the life loss in 1920 was covered by life insurance, while 95 per cent of the property

[14] Edward A. Woods, *America's Human Wealth,* p. 140.
[15] Legal reserve, fraternal and assessment, war risk.
[16] Woods, *op. cit.,* p. 155.

fire loss in the same year was covered by fire insurance.[17] Nearly every property owner protects himself against the hazards of fire but few individuals see the analogy in protecting the money value of their lives.

Reasons for Inadequate Life Insurance Protection

There are probably a great number of reasons why insurance protection of life values is incommensurate with insurance protection on property against fire, theft, breakage, and all the other hazards that affect property values, but a few chief reasons might be indicated:

1. General apathy of the public on insurance matters
2. Lack of insurance education
3. The comparatively high cost of insurance
4. The tendency of most individuals to think in terms of capital rather than income
5. Lack of a feeling of family responsibility on the part of many breadwinners

How More Insurance Protection Can Be Effected

Obviously, there is great need for life insurance to cover the capital value of the American population as near as possible. Some of the ways to effect this great additional coverage are suggested below:

1. Through the increasing wealth of the country and its more equitable distribution
2. Through the conservation of billions of dollars now spent for extravagant, useless, or harmful purposes

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[17] Edward A Woods and Alexander C. Robinson, *Creating and Conserving Estates*, p 173.

3. Through saving much of the money now lost in hazardous speculation or fraudulent schemes

4. Through [illegible] the public to the need for life insurance and the hazards it covers

5 Through adapting life insurance coverage to more human hazards, especially as applied to life values

6. Through the diversion of some other forms of savings to life insurance

7. Through the better education of insurance underwriters and better systems of distributing insurance coverage

8. Through elimination of useless waste in industrial production, distribution, and consumption

9. Through reducing the cost of life insurance by lengthening human life

These indicate but in a very general way some of the potential sources of wealth which are now available but are diverted into fruitless channels. It is usually found that when a need exists, means will be found to supply it. Thus once the public fully appreciates the money value of its individual members and that life insurance guarantees it to dependents, means will be found for effecting the necessary insurance protection.

CHAPTER II

INCREASING LENGTH OF HUMAN LIFE, HEALTH, AND EFFICIENCY

The United States is such a wealthy nation that little thought has been given in the past to the conservation either of natural resources or of, what is more important, the human lives who have developed them and thereby created such phenomenal wealth. Success has been relatively easy for the individual, even the untutored and untrained, and the eminently successful have stood out in public notice to the neglect of their less fortunate fellows. In spite of vast national wealth, however, there has been, and still is, much poverty and distress in this country, and more thought should be given to the distribution of wealth rather than its aggregate. The well-being of any nation consists not so much in the immense wealth of a few favored citizens as in the general high standard of living, contentment, and efficiency of the entire people. The distribution of both wealth and income in this country has been notoriously unequal, as noted elsewhere in this book,[1] and while the standard of living of the masses in this country has probably been above that of the masses in any other nation or in any previous period of our own national life, yet it might

[1] Chapter VII, Table VIII, p. 201.

have been and could be to-day much higher were the proper attention given to some of the hazards which beset all classes.

It was formerly thought that the solution of most social problems lay in increased production of material commodities, particularly necessities of life, but when undreamed-of volumes of not only necessities but luxuries were achieved, most of our social problems still continued with us. Neither were the comparatively high wages of workingmen found to be an adequate solution of dependency and poverty. The causes of such perplexing social problems lie much deeper and are numerous and complex. However, there is one cause that stands out with great prominence, and that is the waste under present-day conditions. Not only is there tremendous waste in the processes of industry, but there are tremendous costs to the country through the loss of life due to preventable disease, high infant mortality, accidents, and premature death. Not only is the capital value of these lives lost, but also love and affection, parental care, and adequate education and training of children because of the death of parents. Possibly a large contribution is made to the criminal element of society by children who have lost one or both parents when needed most, who, had they lived, would have brought their children up to be useful citizens rather than public charges.

Life insurance companies in this country arose in response to the need of replacing the tremendous social loss involved in the premature death of wage- and salary-earners, and they were the first to realize that the

prevention of certain diseases meant longer life. Both through the individual efforts of a number of companies and through their combined action, they have done a pioneer work and have gone a long way towards demonstrating what can be achieved when proper steps are taken to educate the population in the proper care of its health and safety.

National Cost of Preventable Disease

Since there are no national figures available on the amount of sickness in the country, nor any reliable statistics with regard to the degree or length of such sickness, it is difficult to suggest any quantitative measures that would be at all accurate. However, a number of authorities have carefully estimated that the loss due to sickness and time away from jobs as a result thereof results in a $1,000,000,000 loss annually from this source alone.[2] The per capita cost of medical and hospital service annually has been estimated at $10; thus there is an annual cost of $1,000,000,000 per year for medical care and attention, the total cost, therefore, being about $2,000,000,000 annually, some authorities estimating it as high as $3,000,000,000.[3] This is a loss sustained by individual workers and their families while there is an additional loss to industry in closed-down production and hampered efficiency of plant and personnel.

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[2] Insurance Department, Chamber of Commerce of the United States, "Prolonging Life by Coöperative Effort," Health Bulletin No. 7, Feb. 11, 1927; Harold R. Gordon, "You're Laid up Eleven Days Each Year," *The Federation News*, January, 1926, p 4.

[3] Insurance Department, Chamber of Commerce of the United States, *op. cit.*

National Cost of Preventable Accidents

An authority on this subject has assumed that 40 per cent of the accidental deaths in 1924 occurred among workers gainfully occupied. Further assuming $5,000 as the capital value per life, he estimated the aggregate life loss from preventable accidents at $170,000,000 for that year.[4] This seems to be an overconservative estimate, however, since it does not take into account the value of the life loss of those who were not gainfully occupied and the estimate of $5,000 as the capital value per life is much too low, as it is an estimate made prior to the War before the present era of high prices. The present per capita value of human life in this country is at least three and possibly four times this amount.

Those who were not gainfully occupied had a cost of production and a large number of them were undoubtedly children who would have been producers and wage-earners later in life. Their capital value should, therefore, be estimated along with that of wage-earners. Assuming $20,000 as the present per capita capital value of human life in the United States at present money values,[5] the approximately 90,000 deaths[6] from accidents of all kinds in 1925 probably cost the country $1,800,000,000. Assuming that half of these were preventable, the needless capital cost of preventable accidents was $900,000,000.

The money loss of life, however, presents but an

[4] Harold R. Gordon, *loc cit.*

[5] Edward A Woods, *America's Human Wealth*, p. 142

[6] National Safety Council, "The Toll of Public Accidents," 1926, p. 3.

inadequate picture of the social loss of these individuals. It cannot convey the sorrow of relatives and friends over their loss nor the misery involved in broken-up homes, the premature entrance of children into occupations, their inadequate education and training, and the employment of widows in poor jobs at low pay. The monetary loss but serves to illustrate why it would be worth while for communities to adopt even expensive preventive programs since it seems evident that the most elaborate program of prevention would cost but a small fraction of the amount annually lost through the death of productive breadwinners.

The Social Nature of Accidents

The vast majority of accidents are social by their very nature, that is, they arise out of the complex nature of present-day environment. For instance, the great majority of accidents are due to present-day traffic, notably automobile and other automotive vehicles. Railroad and trolley accidents possibly come second, while accidents in the home are at the very foot of the list. Thus the most prolific cause of accidents is a result of very modern inventions and recent developments in transportation, namely passenger automobiles and trucks. While a large number of fatal automobile accidents have been attributed to carelessness, yet a deeper reason seems to be the slow adaptability of human physical reactions to mechanical inventions. Man has made a machine that tends to destroy him; he has developed an intricate mechanism in the machine but has neglected to develop a

component mechanism in his own body. A large number of automobile accidents, therefore, would seem to be inevitable until the human race has itself become so mechanized in its reactions that men are enabled to live reasonably safely in a high-speed environment.

Another prolific cause of highway accidents is the fact that our streets and highways have not developed apace with progressive means of transportation. Many roads are still adapted to horse-and-buggy traffic. They were planned and built in an era when animal power furnished the quickest means of transportation, and until comparatively recent years, even after the development of the automobile, many of these earlier streets and roads were merely resurfaced rather than replanned. Until the last few years, short turns and steep grades were the rule rather than the exception on our highways, and, likewise, grade crossings were the rule of the day. When these roads were planned, none of the features of highway engineering were in themselves dangerous, since they were adapted to a horse's speed of four or five miles per hour; but when they must serve a vehicle traveling at thirty to forty miles an hour, they become agents of destruction. Thus, in endeavoring to solve the highway accident problem, it is not enough to say that the public is careless and must be educated to adapt itself to speedy vehicles, for it must go further and replan and rebuild highways as well as carefully regulate the traffic using them.

Means of Accident Prevention

The chief means of accident prevention lies in education, not alone as to the cause of specific accidents, but rather along the lines of the complexity of modern life. The great majority of people do not realize the very complex nature of their environment and ever present accident hazards. The safety-first movement, inaugurated some years ago, was a step in the right direction and it is commendable that in many schools throughout the country, children are educated in the hazards of present-day life and are cautioned against ever present dangers. The National Safety Council carries on a permanent campaign for safety, makes intensive studies of the causes of accidents in specific localities, and scientifically recommends preventive measures. Practically every industrial concern, also, carries on a program of accident prevention, since accidents mean a real cost to industry in the form of retarded production, and payments for workmen's compensation. Many life insurance companies have literature on accident prevention. Until the great mass of people learn to be careful, accidents will not decrease, since they cannot decline by mere statutory enactment or regulation.

Efforts of Life Insurance Companies to Lengthen Life and Decrease Mortality

It is rather singular that private institutions in the form of life insurance companies were among the first organizations to adopt programs looking towards the conservation of human life. The officials of these

institutions first appreciated that systematic efforts to prevent both disease and accident would result in lengthening life for the population. Life insurance companies have a real economic motive in offering this program since, by lengthening life, they decrease the cost of insurance and the attraction of this decreased cost makes possible an expansion which makes for further lowering in cost. At the same time, while the insurance companies have first attempted to lengthen the lives of their own policyholders, the benefits of their work have accrued to the general population, so that there has been a great social gain from an economic movement.

Importance of Periodic Health Examinations

The importance of periodic health examination for all people is little realized to-day, and yet the benefits of such a procedure should be at once obvious. A locomotive is periodically sent to the roundhouse to be inspected and repaired, and inspectors also examine the other rolling stock systematically at stated intervals. The United States maintains a steamboat inspection service which critically inspects all vessels plying upon its rivers, lakes, and other navigable waters. All well managed businesses periodically make an inventory of their assets, and the very elevators that haul us to our daily tasks are rigidly inspected every few months. On the other hand, the average healthy human being never has a physical inventory made of his own condition unless he is sick and knows he needs it. If he endeavors to join the army, navy, or marine corps of his government, or to be employed

by certain firms examining their applicants for employment, he is, of course, physically examined. Likewise, if he applies for insurance upon his life, he must submit to medical inspection. These instances are all compulsory, that is, they are a condition of his contract. The percentage of ostensibly healthy people who voluntarily walk into a doctor's office and ask for a physical examination at periodic intervals is probably far less than 1 per cent; and yet it seems that the human body, with all its weaknesses, should be subject to at least as much care as a metal machine which can be renewed and repaired with metal parts.

Life insurance companies for a number of years have been advocating periodic health examinations, and some of the country's leading industries have been quick to appreciate the value of these health inventories and to use them for their employees.

The largest life insurance company in the United States was the first one to offer free physical examinations to certain classes of its policyholders. This was in 1914, and up until 1926, 223,500 examinations had been made. In the latter year, forty-two life insurance companies used the facilities of the Life Extension Institute in New York City, and thirty-four companies offered free health service of one kind or another to their policyholders.

Effects of Periodic Health Examinations

The Metropolitan Life Insurance Company has carefully analyzed the experience of its policyholders examined by the Life Extension Institute. In a study of the history of 6,000 individuals examined some

years ago, whose progress was followed through to July, 1924, it was found that there had been a saving of 18 per cent in the expected mortality, the greatest saving occurring between the ages of forty and sixty.[7] Another important fact was that a marked reduction in mortality was experienced among those suffering from comparatively serious impairments; and, in the course of examination, 1,400 individuals were found to have disabilities so grave that they would have been rejected for most forms of insurance. Yet this latter group had a ratio of actual to expected mortality of only 82 per cent of the American Men Table.[8]

One company, in examining 26,141 completed health examinations, found that there were 7,346 normal reports and 18,795 in which impairments had been found. Thus, about 30 per cent were normal and 70 per cent impaired. Another company has found for the last several years that approximately 80 per cent of the policyholders examined showed impairments of one sort or another. The significance of these figures should be appreciated, since the insurance policyholders are themselves a selected class of people. They represent those individuals who have taken a selective medical examination some time in the past in order to get life insurance protection. It is possible that were the general population examined, a much higher percentage of impairments would be found.

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[7] Lee K. Frankel, "The Rôle of the Life Insurance Company in Health Conservation Programs," *The Annals*, March, 1927, p. 2.
[8] *Ibid.*

Nature of Insurance Health Work

The various kinds of examinations offered policyholders of life insurance companies are, in effect, factual surveys of their physical condition at different times. Their purpose is to show the insured just what condition he is in; and, this once being ascertained, he is advised to consult his family physician or specialist and remedy the impairment found. In no case does the finding affect the insurance contract, even though fatal impairments are found.

A number of insurance companies, however, in addition to the annual health examination, carry on various forms of health work. The Metropolitan Life Insurance Company instituted nursing service for its industrial policyholders as early as 1909 and recently the John Hancock Mutual Life Insurance Company has organized a similar service. A number of companies issuing group insurance also offer nursing privileges to group insurance policyholders.

One large company has also issued a complete elementary health library of more than one hundred pamphlets. Another company has specialized along safety engineering lines. Most of the other large companies issue health material of various sorts.

Dr. Lee K. Frankel[9] has pointed out that the life insurance companies are using the propaganda facilities of modern civilization to promote health, such as the radio, magazine and newspaper publicity, nursing service, health exhibits, research bureaus, refinement

[9] *Ibid.*

of statistical method, public school systems, and motion picture films. For instance, one company daily broadcasts physical exercises over the radio; several other companies broadcast health material from time to time; several companies have prepared motion picture films on diphtheria; another deals with smallpox. A film on the danger of overweight is in preparation. All these agencies cannot help having much influence in educating the public in the prevention of disease and in keeping physically fit.

Health Work of the Metropolitan Life Insurance Company

The Metropolitan Life Insurance Company has been a pioneer in health work in the life insurance field and its record is interesting, not alone because of what it has already accomplished, but also for the suggestions it gives as to a comprehensive health program which might well be instituted throughout the country either by local communities, the state or Federal Government, or by the combined efforts of life insurance companies. Perhaps the best way to indicate the work of this company is to quote from a recent paper of their vice president in charge of these activities:[10]

In 1909 in announcing the organization of a "Welfare Division," the company stated that "insurance, not merely as a business proposition, but as a social program, will be the future policy of the company." It was believed that

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[10] *Ibid.*, pp. 4-6.

sickness and death could be appreciably reduced by a continuous campaign of education in personal hygiene; that insurance agents could be of value in spreading the message of health; that coöperation could be extended to health officials and welfare organizations to facilitate their work; that constructive health legislation and more adequate appropriations for health work could be secured.

A large number of policyholders were workingmen and their families. Their mortality was materially higher than that of the population. A special table of mortality known as "The Industrial Table" was used for this group. As late as 1911, the death rate was 12.5 per cent as compared with a rate of 10.1 per cent in the general population. The greater mortality contributed to the relatively higher cost of industrial insurance. The health campaign to-day reaches more than 23,000,000 people—one-fifth of the entire population of the United States and Canada.

The health literature issued by the company interprets scientific medicine in readily understandable terms. A series of more than 100 pamphlets deals with diseases, such as cancer, measles, whooping cough, diphtheria, etc.—their symptoms and treatment. The need of trained medical advice is stressed. Other booklets deal with first aid, accidents, rules of hygiene, the care of the baby and the young child, the health of the worker, mental hygiene, and so on. In 1926, for example, 44,247,526 pieces of literature were distributed, bringing the total to over 420 million. A quarterly health magazine has a circulation of more than 5 million copies.

A visiting nurse service was established in 1909. Nursing service is now available in over 4,000 communities in the United States and Canada. Nearly 30 million visits have been paid; of these, 3,188,417 visits have been made to 633,789 patients in 1926. In 1909, visiting nursing was intended largely for the poor. The Metropolitan has ex-

tended the scope of health nursing by making it available to self-supporting and economically independent persons. Public health nursing has been popularized. The middle classes, as well as the poverty-stricken, call upon the public health nurse. Scholarships for additional professional training in public health problems have been granted to nurses. Nursing institutes under the direction of competent supervisors have been organized. The company, in coöperation with the University of Montreal, the Provincial and local health departments and the anti-tuberculosis league, is conducting a training center for the education of French-speaking nurses.

In addition to literature and nursing, other efforts have been made to educate policyholders in personal hygiene. A Health and Happiness League was organized for juvenile policyholders. Sanitary drinking cups and patterns for making drinking cups have been distributed. Coöperation has been given in campaigns for clean-up weeks, street safety, recreation, and child welfare. A series of traveling health exhibits has been distributed. Nothing has been more significant than the continuous efforts which have been made to show policyholders insured in the Industrial Department their responsibilities as citizens. Special attention has been paid to foreign-born policyholders and those of foreign parentage. Literature has been translated into their mother tongue. Classes in English have been organized. Agents have encouraged them to apply for citizenship. Practical advice and service regarding immigration laws have been given to policyholders having relatives coming to the United States.

A field staff of almost 25,000 agents and managers has been taught to be messengers of health. A special correspondence course and periodical meetings have developed this viewpoint. Agents are instrumental in securing better health and living conditions in their communities. They

have made close contacts with health departments and assisted health officers in obtaining increased appropriations. They have coöperated in special campaigns for typhoid inoculation, toxin-antitoxin immunization, etc., and have persuaded many parents thus to protect their children. With the slogan, "No More Diphtheria in 1930," a special drive to eradicate diphtheria in New York State is being conducted. Special literature has been distributed to policyholders during epidemics. Through the aid of agents, a model milk ordinance, advocated by the United States Public Health Service, has been secured in many communities.

Similar coöperation has been given the medical profession, to private health organizations, and to associations interested in health campaigns, such as safety councils, parent-teacher's associations, women's clubs, Boy Scouts and Girl Scouts. The company's literature has been given freely to these associations. The story of the Christmas Seal has been made the subject of magazine publicity. Special club papers, charts and campaign bills have been prepared for women's clubs seeking to arouse public consciousness to the importance of modern health work. A special bureau of the company has made close contacts with the public schools and has prepared special school literature. Special studies in school health have been undertaken, under the auspices of an Advisory Educational Group and in coöperation with New York University, the University of Michigan, Columbia University, and the Massachusetts Institute of Technology.

Through its policyholders, the company has encouraged legislation for the promotion of health. In 1909, Chicago policyholders were advised about the merits of a proposed municipal tuberculosis sanatorium. Successive efforts have been made to focus the attention of the policyholders on proposals for bond issues for the erection of sanatoria and hospitals; on proposed appropriations for state and munici-

pal departments of health, and for the establishment of county boards of health; on proposed legislation for playgrounds; on laws minimizing the dangers of street accidents and on proposed amendments to state constitutions affecting child labor. There has been frequent occasion to arouse interest in communities to secure pure milk ordinances and to provide the use of safe milk. The tenement house situation in various communities has been brought to the attention of policyholders. Improved systems of sewage disposal and water supply have come about in many communities through their efforts. Other activities in this direction have been attempts to secure a Federal Department of Health, an amendment to the state constitution in New York for a Workmen's Compensation Act, laws for full-time health officers, ordinances for pure milk and water, compulsory birth registration, vital statistics, provision of free toxin-antitoxin, and better methods of disease control.

In the desire to find new avenues of disease prevention and to give practical application to discoveries in preventive medicine, the company has undertaken surveys and demonstrations. Unemployment surveys were made at the request of the United States Department of Labor. Sickness surveys have been conducted in various cities. A demonstration in tuberculosis control in Framingham, Massachusetts, was conducted in coöperation with the National Tuberculosis Association. A sanitary survey of New Orleans was made. A special committee of the American Public Health Association to study practices in large cities was financed. A demonstration was undertaken in the Province of Quebec to reduce infant mortality. A commission appointed by the company has been studying influenza and pneumonia and the common cold. Another committee, appointed by the company, is making a study of burial costs.

The result of this has been a lengthening of the life-span

of Industrial policyholders in excess of the improvement which one might reasonably expect from the record of the general population. Thus, between 1911 and 1925 the expectation of life of Industrial policyholders increased 8.88 years, while the gain in life expectancy for the general population of the United States Registration Area was only 5.16 years. In 1925, the expectation of life among Metropolitan Industrial policyholders was 55 51 years, as compared with an expectation of 46.63 years in the two years 1911-1912 combined.

The greater extension in the life-span for the Industrial policyholders over that discovered for the general population was due, of course, to the more rapid fall of the death rate among these insured wage-earners. Between 1911 and 1925, the Industrial policyholders' death rate declined 32.5 per cent and among the general population of the Registration Area only 15 per cent. This decline in mortality among policyholders resulted in a saving (over and above that expected from the general population) for the whole period 1911 to 1925, amounting to 240,744 persons.

Increasing Expectation of Life in the United States

The average length of life in the United States has been increasing steadily since the middle of the last century and the increase in the present century has been notable. This has been due to improved methods of sanitation, increasing knowledge of the cause and cure of certain diseases such as tuberculosis, diphtheria, smallpox, yellow fever, and a number of other dreaded diseases of several decades ago, and increased knowledge of the proper care of the human body.

The expectation of life at birth is not available for

the registration states before 1900, but the mortality statistics for the State of Massachusetts [11] go back to the middle of the last century. The expectation of life at birth there in 1855 was 39.77 years; in 1901 it was 47.75 years; and in 1920 it was 55.25 years. At the present rate of increase, it is possible that by 1930 it will be 59 years or more, an increase of almost 12 years over a period of 30 years. It has been estimated that the expectation of life at birth for the United States as a whole is already 58 years,[12] and with the increasing conquest of disease and improved methods of prevention and control, it will not be long before the average length of life in this country will be 65 years.

As this relates to insurance companies, it means that the cost of life insurance is diminishing with each increase in the expectation of life. It has been estimated that for each year the annual death claims against insurance companies are postponed $40,000,000 is saved by the companies, which, of course, accrues to the benefit of their policyholders. Obviously, the longer policyholders live and pay premiums to insurance companies, the more income the companies receive, thereby lowering the cost of insurance. The social significance of this is that those with low incomes are thus enabled to purchase insurance protection and thereby provide against their untimely death. At the same time, it gives them the benefit of health privileges afforded policyholders by the vari-

[11] Louis I. Dublin, "The Possibility of Extending Human Life," p. 13

[12] Lee K. Frankel, "Life Insurance and Public Health," *Life Association News*, October, 1926, p 121

ous companies. Thus the very fact that a man is insured gives him certain channels of protection and at the same time makes it to the interest of an organization to see that he lives as long as possible.

From another standpoint, the longer a breadwinner lives and not only provides for his dependents but also attends to their training and education personally, the better citizens they become and the less chance there is of their becoming charges upon the state, not only for financial upkeep, but also in cost of education and training. Thus there is a saving not only in dollars and cents, but also of parental protection and guidance and happiness in family relations. The amount of poverty and misery is thus bound to decrease and a higher standard of living is assured to the entire people as insurance protection grows. When once the problem of sickness and premature death is solved, two of the most serious factors causing poverty and crime will have been eliminated. It seems eminently worth while, then, not only for life insurance companies to carry on their present health programs, but also for local communities, states, and the Federal Government to do what they can to promote health, sanitation, and all measures necessary for increased longevity. It seems that such measures should ultimately be supported by the public that enjoys the benefits. Until that time, life insurance companies are blazing the way.

Economic Significance of Life Extension

We have seen in Chapter I that every productive human being has a money value, particularly to his

dependents. It therefore follows that the prolongation of his life results in a direct economic gain both to his individual dependents and, consequently, to society. Several authorities have estimated that those who benefit from the earnings of all male persons saved to longer life gain in the neighborhood of $2,300,000,000 every year. While data for computing similar figures for females are lacking, the total gain for both sexes is put in one estimate at $3,500,000,000 per annum.[13]

This estimate is based upon the gain in lives in the 1924 Life Table over that of 1901. For instance, the value of a male at birth, according to the 1924 Life Table, is estimated at $9,333; for 1901 the corresponding figure was $7,553, thus giving a gain of $1,780 for the males born.

The Committee on Municipal Health Department Practice of the American Public Health Association has estimated that an expenditure of less than $2.50 per capita per year would permit officials of larger cities to do effectively comprehensive health work,[14] which would possibly add between five and seven years to the average length of life in this country. The total cost of such preventive health work for the entire population probably would have amounted to almost $300,000,000 in 1924. Subtracting this sum from the amount saved over the 1901 Life Table, the net gain to the country would have been at least $2,000,000,000. However, as a matter of fact, it was probably greater,

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[13] Metropolitan Life Insurance Company, Statistical Bulletin No. 12, December, 1926, p. 4

[14] Louis I. Dublin, "Health Work Pays," p. 10.

since the present per capita expenditure for health work is in the neighborhood of 50 cents rather than $2.50.

Influence of Life Insurance on Infant Mortality

Most of the gains in the expectation of life at birth have been due to the material reduction of the death rate at younger ages, particularly among infants. It seems fairly evident that there is a close correlation between low family income and high infant mortality.[15] Thus where the mother of an infant is left penniless upon the death of her husband, the chances of the infant's living to the end of the first year are substantially reduced. This is likewise true of very small children. Where widows with infants and small children are the beneficiaries of life insurance protection, they are assured of an income for at least a brief period, which enables them to care for their children or at least gives them an opportunity to provide for their care.

This is a direct contribution of life insurance in helping to reduce infant mortality, but it has several indirect influences in addition. For instance, the disability benefit under most policies provides for the worker's compensation in case of disabling accident or illness, and thus the family is cared for if the breadwinner is permanently disabled. In so far as life insurance also insures the economic stability of

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[15] Julia C. Lathrop, "Income and Infant Mortality," *American Journal of Public Health,* Vol. IX, No. 4 (April, 1919), p 271; Robert Morse Woodbury, "Economic Factors in Infant Mortality," *Journal of the American Statistical Association,* June, 1924.

the community through regular employment, it is a contributing factor to lessen infant death rates. Several progressive life insurance companies, too, are very instrumental in providing information on prenatal and confinement care for mothers, some companies even providing nursing services for their industrial policyholders. Other companies are instrumental in providing free clinics in communities which fail to provide proper care and treatment of maternity cases.

Educational Effects of Life Insurance Examinations

The issuance of a life insurance contract in the past was usually contingent upon the applicant's passing a satisfactory medical examination, and while a large amount of insurance is now issued without such examination, certain safeguards are provided which give the issuing companies substantial information of a medical nature so that even to-day life insurance is issued, in the vast majority of cases, on selected risks. In following this practice, life insurance companies have demonstrated to the public for a long time that there are degrees of quality in human beings and, in so doing, have undoubtedly been an important influence in pointing out the importance of good health to the individual and good habits conducive to long life. They have constantly, even though unconsciously at times, pointed to the economic value of health. Even though but few policyholders take advantage of the annual health examinations offered by their companies, the examinations of applicants for new insurance in the year 1925 probably totaled 4,000,000 people, while there were

possibly 75,000 people who took advantage of the free periodic examinations offered by such companies. Even those who failed to effect insurance coverage at least had their attention called to their physical condition and, in many cases, had recommendations made by the insuring physician as to proper steps to follow where impairments were found. Thus both through the direct and indirect efforts of life insurance companies, it is highly probable that there is a higher incidence of physical examination among the population of the United States than among any other people in the world. People are being accustomed to the fact that life insurance companies, in the vast majority of cases, require physical examination of applicants before issuing insurance upon their lives; hence, it is but a natural and logical next step for people to make use of such examinations for the private interest of the individual's health.

Finally, the health propaganda of life insurance companies is slowly permeating the great mass of the population. Not only does this emanate from the home offices of such companies, but their agency force of a quarter million men and women is continually bringing the message to the people they solicit for insurance. The fact that life insurance companies find that they cannot safely insure the intemperate, drug addicts, fast livers, the immoral, or criminal, and that even total abstainers from liquor have longer life, cannot help having beneficial effect on the public and be conducive to temperate and more careful living. Thus while no quantitative measure can be put upon the health work of life insurance companies, it is con-

siderable and important and bears more fruit as time goes on.

Longevity of Policyholders

In view of the fact that insurance policyholders are a select class of the population, it follows that they should have a longer expectation of life than the general population, since the great body of physically impaired risks has been eliminated. While there are no figures available which would make possible the comparison between insured and uninsured lives, it is possible to compare the expectation of life of various classes of insurance policyholders with the general population. This, of course, gives the latter class a material advantage since it includes the former. Thus were it possible to exclude insurance policyholders from the general population, the comparison would be more marked.

It is found that the expectation of life of industrial policyholders is longer than that of the general population of the registration states; "ordinary" policyholders have a longer expectation of life than either of the two foregoing classes, while annuitants have the longest expectation of any group. It seems fairly evident that economic status and occupation play major parts in the expectation of life. Industrial policyholders are exposed to the hazards of industry and are at the bottom of the wage scale; they are thus not only exposed to the accident and health hazards of industry, but because of low income, often live in unsanitary surroundings and homes or unhealthy parts of large cities. "Ordinary" policyholders are

somewhat higher in the economic scale and as a rule have jobs less hazardous than the industrial class and earn a higher income, which makes possible a higher standard of living, more adequate medical care, and education, all of which mean a longer life. Annuitants are probably the most favored class of all. Where the annuities are purchased by others when the annuitants are young, as by parents for their children, the latter are assured of a certain standard of living for life. They are thus unobliged to enter hazardous industries or undesirable occupations at low wages as might otherwise be the case. Those who purchase their own annuities for the most part are thrifty by nature, careful by habit, and thoughtful by disposition. The very fact that they purchase annuities indicates that they take thought for the future and make appropriate plans; hence, it is logical to assume that they are the type inclined to be temperate and considerate in all walks of life. Thus having once purchased annuities, they are assured of a future income for life and, being freed from financial worry, live for a great many years. There is certainly some correlation between worry and fear and health. Those assured of a living do not have the haunting specter of poverty facing them and thus they do not have to sacrifice reasonable standards of living at the expense of health.

The following table compares the expectation of life of American annuitants with that of the white population.[16] It will be noted that the expectation for the

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[16] William Breiby, *The Essence of Life Insurance*, pp. 162, 163.

former for both sexes is greater at every age than for the population as a whole.

TABLE I

COMPLETE EXPECTATION OF LIFE

American Annuitants' Table			United States Life Table	
Age	Select Males	Select Females	White Males	White Females
20	45.5	48.5	42.4	44.4
25	41.4	44.4	38.6	40.5
30	37.3	40.3	34.8	36.8
35	33.2	36.2	31.1	33.0
40	29.3	32.2	27.6	29.3
45	25.5	28.3	24.0	25.5
50	21.8	24.5	20.6	21.9
55	18.4	20.9	17.2	18.3
60	15.3	17.6	14.2	15.1
65	12.4	14.5	11.4	12.1
70	9.9	11.7	9.0	9.5
75	7.7	9.3	6.8	7.3
80	5.9	7.2	5.1	5.4

Social Effects of Insurance Health Work

In Chapter I it was pointed out that the probable capital value of the population was at least $1,650,000,000,000. The amount of outstanding life insurance covering the economic value of these lives was possibly $95,000,000,000 [17] at the end of 1926. Thus their economic value was but 5.7 per cent covered by life insurance. The theoretical amount of life insurance that should be carried in any nation should be a sum large enough to cover the capital value of its

[17] Legal reserve, fraternal, United States Government, and assessment insurance.

population, but this is obviously impossible at the present cost of insurance and in the present state of economic development. Even were this sum reduced to one-half or one-third, it would be financially impossible to carry this amount of life insurance. Therefore it becomes the duty of life insurance carriers to devise ways and means of increasing the insurance protection of the population to as large a figure as possible. One of the first steps is to reduce the cost of insurance and this is possible chiefly through the lengthening of life, the extension of insurance to more risks, and the better education of the public to the needs and functions of insurance. A tremendous financial source is hidden in the present cost of preventable crime and in the preventable wastes of our distributive system. These latter remedies, however, lie without the pale of insurance company activities and it becomes the duty and function of the State and the general public to take those steps which will most effectively utilize our economic resources and thereby enable us to eliminate unnecessary hazards.

The benefits of life insurance, however, cannot be measured by the dollar mark nor by the savings of mortality in themselves. They must be measured in terms of happiness and contentment for the individual, the holding together of families and their continuation as a social unit for years even after their breadwinner has passed on, the more equitable distribution of wealth, particularly the necessities of present-day life, and, finally, the development of a higher cultural life, which should be possible in a land of vast natural resources, prolific production, and ade-

quate leisure. To the degree that life insurance organizations help hasten the day of general enjoyment of these benefits, they are valuable as a social institution of prime importance.

CHAPTER III

THE INFLUENCE OF LIFE INSURANCE UPON THE STATUS OF WOMEN

One of the great movements that has characterized the last few decades is the gradual emergence of women from economic dependence upon men, which has given rise to an entirely new social attitude. Women are now more free, economically and socially, than they have ever been in the entire history of the human race. The great improvements in their social status have been so recent that even yet it is difficult to realize that older conceptions of their place in society are gone for all time. Now practically every occupation is open to them, their education is considered essential, and they have won the franchise not only here but abroad, even in conservative China. The contemptuous answer formerly given to every move for their advancement, that "woman's place is in the home," is still heard in obscure corners; but not long ago it opposed every demand for their freedom, liberty, and education. It practically meant that a woman's interest should center solely in the home, that her functions were to minister to her husband and bear and rear his children. Anything that interfered with these primary duties was considered foreign to both nature and religion. Her entrance into occupations until very recently was denounced as tak-

ing away her beauty and grace and being contrary to the laws of both nature and God. Even latter-day sermons have sought to prove that a woman is out of place in business, politics, college, and almost any other place except the home; as within the memory of many living to-day the divine sanction of slavery was preached from our pulpits along with the divine right of kings.

One reason for this attitude toward woman was doubtless the fact that, throughout the development of the race, her economic status has been inferior to that of man and, in most countries, still is. She has generally been a lesser economic asset to the family, the tribe, and society than man and, as a result, has been looked upon as the "inferior sex." To understand this attitude it is perhaps well to get a background of her place in the various stages of human economic evolution.

Women in the Hunting and Fishing Stage

Early man did not differ materially in living habits from the animals of his time, for he existed much as they did, with temporary natural shelter, chance food, and no provision for the future. There were but two incentives in life, to collect food enough to live upon and protect oneself against human and animal foes.[1] Male and female roamed and lived together indiscriminately in the earliest stage of man's history, but some time near its close and near the beginning of the hunting and fishing stage, the institution of the family had its beginning.

[1] N. S. B. Gras, *An Introduction to Economic History*, p. 4.

The natural division of labor between male and female was perhaps a strong contributing factor to the formation of the family. The male hunted, fished, and fought wild beasts and human enemies; the female helped to drag slain animals to camp, gathered fruits and herbs for food, and bore and reared children. She was, therefore, less adapted to the strenuous life of the chase, fishing, and brutal warfare. The prime function of the male was to provide for and protect himself, his mate, his family, and later his kin, from enemies; that of the female to bear young, rear them, and serve her provider and protector.[2] When a number of families combined into a kinship group, the males were valuable as warriors, hunters, and fishermen, while women were at a discount because good only for child-breeding and simple camp duties. The strength of the tribe was measured by its hunters, while its women counted for little. Among American Indians the highest opprobrium that could be heaped upon a warrior was to call him a woman.

Women in the Pastoral Stage

Certain social customs with regard to marriage relations evolved in the pastoral stage. These were the practices of polyandry and polygamy, between which there was a ceaseless struggle.[3] When pasture lands were poor and widely separated, the food supply of the tribe was scarce and each additional mouth to feed was an added drain upon the limited supply of food.

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[2] *Ibid.*, p. 15.
[3] *Ibid.*, p. 41.

Under these conditions, a number of men would take one wife, the surplus of women being kept down by killing female infants. This custom of polyandry has come down even to the present day in some remote parts of the world. Among some of the wild tribes of Thibet several men still take one wife, for often a husband may be killed on the hunt or while caring for his flocks or by an enemy and so never return. As his widow would have to be cared for by some one, it is rather natural that a number of men should assume the risk together. Among some Eskimo tribes when a husband fails to return to his wife after a certain period, another man may marry her and in case the first husband subsequently returns, he resumes his former place and the second husband retires.

There were at the same time counter forces making for polygamy. As tribes roamed in search of new pasture lands, they frequently came in conflict with people occupying the land, and as some areas developed and became more thickly populated, the life of the nomad became one of eternal warfare.[4] The waste of life involved necessitated a higher birth rate for the supremacy of the tribe and polygamy was a fruitful step in this direction.[5] In addition, as tribes waxed prosperous, more men could enjoy the luxury of two or more wives. If the tribe engaged in agriculture, there was the added incentive to have more than one wife to work the fields, since men of pastoral nomadic tribes detested routine, monotonous labor. It was easier to subjugate women to slavery or to steal them

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[4] *Ibid.*, pp. 26-28.
[5] *Ibid.*, p. 41.

from neighboring tribes, as the Romans captured the Sabine women, than to work themselves or attempt to conquer warriors of other tribes and make slaves of them. Besides, male slaves were more apt to revolt or escape, and female slaves were another source of a high birth rate. The strength of a tribe was still measured by its male shepherds and not by its women. When Pharaoh wished to weaken the fast-growing children of Israel, he killed the male infants as a preventive measure.

The father of a large family of boys was considered very fortunate and became powerful in his tribe, while a man with a large family of girls was unfortunate. Jacob possibly had twice as many daughters as sons, yet no mention is made of their number or names, but the twelve tribes of Israel are named for his sons. Among the early Hebrews, particularly in their patriarchial stage, custom sanctioned wives, concubines, and female slaves as members of the household, especially to produce male offspring.

Among other customs that probably had their beginnings in this stage and have continued to the present day was that of killing aged members of the tribe or exposing them to travel. This practice was resorted to by those tribes which had to travel about constantly in search of food for cattle or who had to hunt for food over wide areas. The custom is said still to prevail among the Koraks and Tchuktchees of Siberia. Among the wild tribes of Patagonia the aged, sick, and infirm are left to die by the way as the tribe moves onward in search of better lands, wild goats, or hunting grounds.

Women were thus absolutely dependent upon men for a livelihood. There was often little distinction between a female slave and a so-called wife as to her duties or rights or the husband's authority over her. The disposal of a wife or wives upon a man's death took many forms, some very cruel and barbarous. Among tribes with a limited food supply, the custom of burning the widow upon the husband's funeral pyre developed, which practice continued in India until comparatively recent years. In other places, she was killed or buried alive with the corpse of her husband, especially if he were a king or great chief. This prevailed for the wives of the emperor of Japan until almost the last reign. Among the early Jews, a widow was married to the surviving brother or nearest male relative of the deceased, even as late as the time of Christ, as is well illustrated by the question of the Sadducees as to whose wife a certain woman would be in heaven who had been wife in turn to each of seven brothers.[6]

When female children were a liability, both economic necessity and the natural desire of every parent to provide for them found a solution in early betrothal and marriage. Thus their future support was insured and the father was relieved of the burden and consequent ignominy of having a large family of daughters. Especially was he disgraced if it appeared that they were daughters no one cared to marry, and who consequently continued to look to him for support. In India and China many children are still betrothed at birth; and, in some parts of China to-day, family

[6] Matthew, 22: 23-30.

friends agree that if one family has a male child and the other a female, they will be betrothed even before birth and the future marriage and support of the girl is thereby assured.

The custom of throwing female children to the crocodiles in India and discarding female infants in parts of China to-day, particularly if the infants are deformed or unlikely later to become economic assets or to secure husbands, probably had an economic origin. The Hindu belief that women are less important than cows no doubt arose from an economic system in which cows were actually more valuable than women. In Africa to-day a wife can be bought for ten large blue glass beads, while it takes from fifteen to eighteen to buy a cow.

The Hindu, and to some extent Mohammedan, belief that woman has no soul, that, for some crime committed in a past existence, some man's soul is condemned to be reborn in the body of a woman, may have some relation to the fact that practically no methods of earning a livelihood are open to girls in the Orient. Those that have been married once are not permitted to marry again and thereby deprive other single girls of husbands. Thus the belief probably grew that the death of a husband, even a child-husband, was due to his wife's evil eye and that such a valuable person as a second husband was not to be exposed to the same risk.

Women in the Agricultural Stage

Real civilization began when wandering tribes settled down definitely in certain areas. Women and

male slaves planted, tilled, and harvested the crops, as free men of the times would not bring themselves to continuous, routine, hard labor. It was easier to go on raiding expeditions and capture more slaves. The strength of the settlement was still the number of its men, its slave farmers, herders, and especially free warriors. In Russia to-day the economic unit is a man, wife, and horse, both of the latter selected by the man as strong workers. As agricultural labor required more physical strength, man gradually took over the agricultural duties of the women, who were relegated even more closely to the house and to the household duties which increased with each upward step of civilization.

Women in the Handicraft Stage

Then followed the growth of cities, the movement of a large part of the population into urban areas, and the conversion of agricultural laborers into craftsmen who specialized in making certain commodities. In towns and cities, the labor of women outside the home was practically unknown since household duties and those of child-bearing and rearing occupied her exclusive attention. They were increasingly dependent upon the male head of the house for support and probably some of the customs of early marriage betrothal began in this stage in European countries.

Influence of War upon Women's Social Position

Throughout history, war has probably done more than anything else to subjugate females to the dominance of males and thus make the latter the more

valuable to society. It has ever been the function of the male to protect the family, the clan, the tribe, or the nation against its foes. It was the knight who rode away on his charger in glittering armor to glory, while his dutiful lady waited at home gazing daily from her watch tower for his return! For women, on the other hand, until recent years, there has been little left to do but bear children, care for the home, and perform the numerous incidental tasks necessary to keep the male going. Whether on the plains of India, the deserts of Arabia, or in the forests of ancient Gaul, men were the strength and pride of the nation, and even to-day the military uniform has glamour and prestige among the most civilized peoples.

As long as women remained in obscurity and were subject to the slightest whims of their warrior-husbands, they were held in little respect and esteem. What regard they did command was rather a reflection of their lord's power. Great discrimination between sexes yet occurs among warlike peoples. Clearly, the social status of woman seems to depend upon the warlike proclivities of her people, and once the tribe or nation settles down to peaceful pursuits, the status of women rises accordingly.

Women in the Industrial Stage

With the advent of the Industrial Revolution, the coming of machinery, large-scale production, and large investment of capital in industrial enterprises, a great number of the time-honored occupations of both men and women disappeared for all time. Women were forced into industry not alone after the death of the

head of the family, but even while he lived, to help augment his meager income. Not only women, but children also, were often drawn into industry to help supplement the family income.

The lot of working women has always been worse than that of men, because they have not been so economically valuable, especially when physical strength and physique of the laborer rather than skill or dexterity were the main requirements of industry. In many industries to-day women are paid less than men, even though good workers, due to interruptions caused by child-bearing or child-rearing. The word "labor" even now suggests male and not female labor. This struggle continues in a modified form to-day and is not confined to Europe alone, but applies also to America.

The evils of exploitation of female labor in this country, while never so marked as in Europe, have been flagrant enough to invite corrective legislation in forty-four states, most of which is designed to correct only the most outstanding evils of female employment. These very laws recognize the fact that female labor should be subject to certain restrictions that do not apply to males.

As labor requiring mere physical strength became decreasingly valuable in comparison with tasks requiring more dexterity and manual skill, there came a new era in the economic value of woman. In mill and factory, in counting house, and in the professions, dexterity and brains have become more important and valuable. When we consider the number of women gainfully employed and the number of occupations

open to them to-day compared with even a half century ago, their progress in employment can be better perceived. Although four-fifths of those reported gainfully occupied by census reports are males, there are upwards of twenty million housewives unrecognized, many of whom work harder, longer, and more efficiently than their husbands.

Little more than half a century ago, except for the commonest forms of labor and domestic service, there was hardly any honorable occupation open to women, and until recently she lost social prestige by entering business. Even in Shakespeare's time, female parts in plays were acted by boys. The woman that took up professional or business life, or dared to enter the pulpit, the bar, or medicine, did so at a great social handicap. It was not only difficult for her to make her way, but her value to business was slight and opportunities for training were rare. Training schools of various kinds where women could be taught vocations and professions are a development of the last half century. Vassar College, one of the first women's colleges in America, founded only sixty-six years ago, suffered for years from the jibes and ridicule of those who did not understand why a college education should be wasted on women.

With the opening of avenues of business to women, their education followed very quickly, because it was obvious that educated women secured better positions, progressed faster, and became more valuable than the uneducated. Training schools and business courses became available to them. Not only did women's colleges multiply, but men's colleges admit-

ted women students and coeducation became quite usual in spite of debates and denouncement. While fifty years ago it was perhaps unladylike for the better-class woman to be occupied in anything but her embroidery and music, to-day there is at least distinction in being employed, whether the woman requires the income from it or not. Capable daughters of our best classes are at least fitting themselves for business positions and, indeed, in some cases already filling them.

As the superior alertness, if not ability, of woman in industry and business became evident, she became less of an economic liability and more of an asset. No longer does the father of a family of girls consider them an economic burden. In countless cases they have become the family support. Many wives or widows have taken up the work of their husbands, often after the latter have failed; while others have made great successes and become nationally or even internationally known, for instance, Mme. Curie in research and medicine, Mrs. Netcher of Chicago in merchandising, and many others. The social stigma formerly attached to women in business either has disappeared or is fast disappearing, until to-day over eight and a half million women are gainfully employed, or 21 per cent [7] of the total number of people gainfully occupied in this country.

Teaching school was the first great vocation opened to women, in which profession 639,241 were engaged in 1920.[8] In addition, there were millions employed

[7] *Abstract of the Fourteenth Census,* p 481.
[8] *Ibid.,* p. 494.

in industry, in offices, and in businesses of their own. There are many vocations for which women are peculiarly adapted, such as nursing, social work, stenography. These, however, are developments of the last few decades. Many women are practicing medicine and law, entering the pulpit, and many other vocations heretofore open only to men.

When women could engage in few gainful occupations, marriage as early as possible was almost essential to insure their support. The extreme practice of child marriage in China had until lately a modified counterpart in Europe and America. Probably the phrase "sweet sixteen" had its origin in the assumption that at that age a girl was supposed to be ready for marriage. In "Romeo and Juliet," Juliet's mother chided her for not being married at fourteen because most of her girl friends were married and rearing families. Dickens tells of a girl of seventeen worried because she was still unmarried at such an "advanced age" and also perplexed that an "old woman" of twenty-three had married a man of thirty. She could not understand this unless the woman wanted solely to have a provider, or why a man at that great age would think of marriage unless to have some one take care of him. And this was only seventy-five years ago. In the Middle Ages, the marriage of a widow to secure support was generally her only alternative to entering a convent, unless she became dependent upon the charity of relatives.

With no economic necessity for early marriage, with more facilities for earning a living, and adequate time for both education and preparation for business life,

the average age at which girls marry has steadily advanced. No longer does a girl of twenty feel ashamed at being unmarried. She is amply able to provide for herself, she is at greater liberty to marry or not, as she sees fit, or to choose her husband. No longer need she fear imposing herself on her family nor need the parent feel concern lest he die before his daughter's marriage.

The result has been that in this country to-day woman is no longer considered an economic liability. Few parents neglect the education of their daughters any more than that of their sons. Public education is as compulsory for the girl as for the boy, and to-day over half a million women are attending colleges and normal schools, while millions more are in high schools and grammar schools. Their freedom to marry when and whom they please, if they choose to marry at all, is in strong contrast to the marriages of a century or two ago which were arranged by parents, with little consideration or consultation with the prospective brides, who were constantly made to feel grateful that they had any husband at all. If a husband treated his wife ill, it was legally and socially considered somehow her fault, and the double standard of morality was not the only handicap under which the wife labored.

Many survivals of custom or public opinion and law, such as the right of the husband over the wife's person and property, probably had their origin in this attitude toward women, and many other legal and traditional disabilities under which women labored have been modified or else have disappeared within

comparatively recent years. But a short time ago, in many states, a woman had no right to dispose of her own property without her husband's consent, even though it was earned by her own labor or given to her. Under the laws of New York State, until 1863, a married woman could not assign life insurance policies on her own life, paid for with her own money; and until about the same time, her endorsement of a promissory note without the joinder of her husband was valueless, even though she had money and he were worthless. Like the Dred Scott Slave Decision, it was considered that a woman had practically no rights which a man was bound to respect. A young Mohammedan may still divorce his wife by simply repeating the formula, "Thou art divorced"; but his wife has no such rights, regardless of the character or conduct of her husband.

In many countries a woman still has little to say as to whom she will marry and has practically no right to leave her husband; while, on the other hand, a husband feels that he honors the woman he consents to make his wife, and it follows that he feels free to do what he pleases. The wife, however, is held to strict accountability for her duty to him according to standards he sets for her, as thousands of harems still attest. "Obey" was used in the marriage ceremony of all churches in America until recently, when a few of them have omitted it. It still remains a part of the service of the Episcopalian and Roman Catholic churches, however. The husband and father still confers his family name on both his wife and his children.

Married Women at Work

Married women now constitute an important part of the female working population. The 1920 census reported almost one-tenth [9] of all married women fifteen years of age and over "gainfully occupied"; and almost one-fourth of all occupied women are married.[10] Their age distribution would seem to indicate that they go to work as their family needs increase. Women of middle age are more likely to have growing children who must be fed, clothed, and educated. Table II shows that the distribution of gainfully occupied single women is relatively equal for all ages, while among married women there is a marked tendency towards employment as age increases.

TABLE II

AGE DISTRIBUTION OF GAINFULLY OCCUPIED WOMEN

Age Period	Percentage	
	Married	Single
15 to 19 years	3 9	23.0
20 to 24 years	14.8	23.7
25 to 44 years	59.6	35 4
45 years and over	21.8	17.8
TOTAL	100.0	100.0

Problems of Working Widows

The problems of widows in industry are similar to those of young unmarried girls and married women,

[9] *Abstract of the Fourteenth Census,* p. 560.
[10] *Ibid.,* p. 561.

depending upon the number of dependents relying upon the widow's wages for a livelihood. Where there are no dependent children or relatives and widows have only to care for themselves, their lot is not so serious as that of their more unfortunate sisters who are left with several small, minor children. They are, however, generally handicapped in securing employment because of their age, lack of training, and often impaired physical ability.

Although comprehensive figures showing the number of children dependent upon wage-earning widows are lacking, four studies made in as many localities in different parts of the country indicate that on the average 50.7 per cent of the widows had dependent children while 49.3 per cent had none.[11]

Life Insurance as a Financial Aid

Any institution that will further the economic independence of woman makes for her social as well as economic progress. Life insurance, both in its direct and indirect effects, is one of the foremost of such institutions.

Life insurance has a long record of meritorious service in the past in providing widows and orphans with funds which have enabled them to live somewhat after the manner to which they were accustomed before their breadwinners' deaths. In the last decade over $3,670,000,000[12] was paid to beneficiaries of life

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[11] United States Department of Labor, "Family Status of Breadwinning Women in Four Selected Cities," p 29.

[12] *Insurance Year Book,* 1926, pp 458-459, data for 1916-1925 inclusive.

insurance policies, about 52.7 per cent [13] or $1,934,-090,000, of which was payable to wives and probably 25.7 per cent [14] or $943,190,000, to parents, over half of whom were women. Since approximately half the children of the country are females, one half of all the insurance payable to children was payable to females. This colossal fund enabled them to live and often raise their families until able to care for themselves.

The institution of life insurance originally sprang from the idea of providing for the family. It still exists chiefly because of the desire of husbands and parents to provide for their wives and children. Great as the amount of insurance written for other purposes is, it does not begin to approach the amount written to protect the home, the wife, and children, and to furnish support for women in their old age.

Even in the case of group life insurance, by far the greatest number of certificates are payable to women. In an analysis of 2,264 group life claims, it was found that approximately 85 per cent of them were paid to women.

Through the purchase of various forms of old age pensions, often from their own earnings, women are now enabled through life insurance definitely to provide for their old age and thus relieve themselves of the anxiety that has fallen upon many women in the past, particularly those approaching middle or old age. No longer do they face the prospect of being a burden upon their children, kindred, or charity, but they are

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[13] *Life Association News,* June, 1925, p 727
[14] *Ibid.*

free to contemplate their later years as quiet ones freed from financial anxiety. This is, indeed, a great step forward from days of savagery when they were killed or so exposed and neglected that they soon died. Thus their lives are not only made happier and more comfortable, but they are actually lengthened by freedom from financial anxiety. Fear of the poorhouse in the past has no doubt hastened death and perhaps caused suicides, but it no longer haunts such women as they approach old age.

Above all, the institution of life insurance relieves the age-old anxiety on the part of men as to what will become of wife or children by furnishing a definite method by which it is possible to solve the problem. It is no longer necessary for the father to remain anxious about his daughter's future until a marriage is arranged. The employment of women and increasing wealth have both helped; but life insurance, to a surpassing degree, has provided the mechanism by which this has been brought about. The purchase of life insurance might be called "the purchase of independence and of freedom from anxiety," and it is especially important in a country where the position of woman is more highly regarded than elsewhere or in times past; for it is obvious that more care will be taken for her support, comfort, and happiness.

Through life insurance, women beneficiaries have been enabled to enjoy the companionship of their children in a normal home life and the community has benefited in a lower mortality rate for both mothers and children. Without funds supplied by life insurance, and compelled to work for a living, many women

probably would have shortened their lives by overwork. It has also been established that there is a very definite relationship between infant mortality and the size of the family income.[15] Keeping a family together is of vital social importance since no orphanage can take a mother's place. As long as the home is the social unit, so long will life insurance be an important social factor. It requires no statistics to emphasize the difference between a home broken up by the death of a husband and father, where the wife has to take leave of her children while she endeavors to earn a living, and a home well fortified by life insurance protection when the breadwinner passes away. Without life insurance the children must either be sent to an orphanage or scattered among those who will care for them, or, if they remain with their mother, be neglected while she is at work. They must be taken from school early and put to work to help augment the family income. With insurance protection, they are assured of their mother's care and protection and are given a better education and start in life. It requires no vast array of data to show that the condition of the woman entering old age with an absolute assurance that an income has been provided for her is happier than the condition of one who has nothing. She will not have to face the day when she can no longer earn a living of any kind and be compelled to view the ugly specter of dependence in some form. It is small wonder that annuities lengthen the life of female annuitants.

It is natural for kindred or friends to look with less favor upon dependent women, especially those ad-

[15] Mary N. Winslow, *Married Women in Industry*, p. 6.

vanced in years, than upon aged male relatives. The former would always be an economic burden, while, in some instances, old men can be somewhat of an asset. It is natural for any one to regard his assets more favorably than his liabilities and to take better care of them. In homes where every mouth to be fed and every body to be clothed mean that much taken from other members of the family, it is easy to understand why little effort is made to welcome dependent old folk into the home and to prolong their lives. The misery of old women, conscious of such an atmosphere about them, whether expressed or concealed, probably shortens their days. It may also account for the horror with which those passing into middle life contemplate dependent old age and helpless, declining years by unwelcome firesides. It is small wonder that many women under the economic pressure of making a present living and facing such a future are subconsciously driven to marriage, often an undesirable and unhappy one. In extreme cases, suicides have unfortunately resulted. A recent writer has commented on the fact that many widows of ample means do not remarry to-day, as those in poorer circumstances or in former times were forced to do. Life insurance has undoubtedly had a large part in remedying the situation.

Both women and men have benefited from the health work of life insurance companies, in regard not only to the everyday hygiene of home life, but also to more sanitary conditions in factory, store, and shop. Not only have proper health measures prevented much sickness, but they have also saved the money that might otherwise have been lost through

sickness and absence from work. As the health of workers is improved, their resistance is strengthened, they live longer, and their women dependents are not forced to work so soon as the earlier death of the husband might make necessary. Children, in turn, benefit by the added care of the mother and the continued normal home life. It is, also, important to equip and train female workers and to conserve their health and strength, since they are of value to their families, industry, and society at large. Finally, society benefits not only in being freed of supporting widows and orphans, but by acquiring children who have been reared in homes under the care of parents.

Life insurance furnishes one of the most immediate and practicable means of assuring a livelihood to those women who are unfitted and untrained for work. Thousands of women are engaged in life underwriting, an appropriate vocation for them, since they are the greatest beneficiaries of the institution they present to others. Scores of thousands of other women are furnished with clerical and other employment throughout the home and agency offices of the many insurance companies, who employ at least 300,000 people, of whom approximately one-third are women.

It also provides funds for educating those women who expect either by choice or necessity to become wage-earners. Education and training mean better jobs, better wages, and a fuller life in which the worker gets something else out of the job than the mere money wage. Society is beginning to recognize the fact that it has an economic value in the lives of all producers irrespective of sex; and with the growth of

individual appreciation of this fact will follow increasing insurance protection which, in turn, will further contribute to woman's well-earned advancement.

The Future Influence of Life Insurance

While life insurance has played an important part in raising the economic status of women in the past, the future holds even a brighter aspect. Probably $52,000,000,000[16] of the life insurance in force in legal reserve companies is now payable to women beneficiaries and much of the balance helps them indirectly. This represents a colossal and rapidly increasing fund that some day will provide a livelihood for them and their dependents and will help educate and train their children. Thus their children will be enabled to start life with the same advantages as those children whose parents have lived and provided for their training.

[16] Sixty-five per cent of $80,000,000,000, estimated insurance in force, December 31, 1926.

CHAPTER IV

LIFE INSURANCE AND DEPENDENCY

All normal persons, at some time in their lives, are dependent upon others for a living. Man is born into the world dependent upon his parents for a living and he remains so from infancy and childhood to early adult life. During his middle life, he may become dependent upon his family, friends, or society through unemployment, disabling accident, or illness. Finally, there is always a chance that he will become dependent upon his children or society in his old age.

Dependency Hazard of Normal Persons

The hazard of dependency for any normal person is graphically shown in Chart A. For instance, children are normally dependent until age eighteen or twenty, when their earnings begin. Their incomes rise more or less steadily until their late forties, when incomes reach their peak. They then decline steadily and reach the level of subsistence around age sixty-five. From then on, many individuals, especially the unthrifty, become an increasing charge upon their families or society.

Dependent Childhood

Under present standards of living in this country, a child is largely dependent until age eighteen or twenty,

up to which time he is a cost to his family, not only for food, clothing, and shelter, but also for education, training, and recreation. These latter items, while considered a luxury in the early days of the country, are now regarded as necessities, since they largely determine the children's ultimate success, happiness, and prosperity. Thus all costs in addition to living ex-

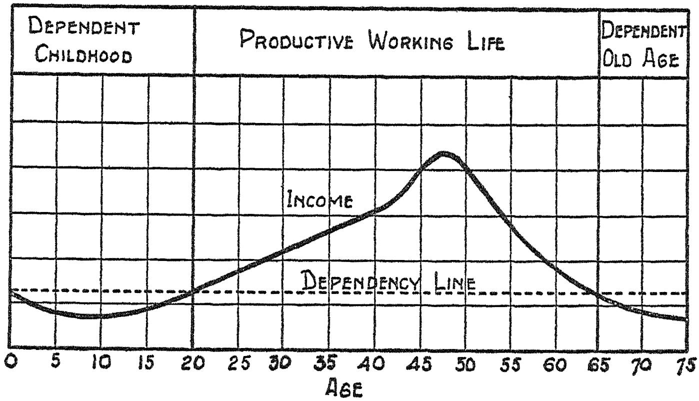

CHART A.—THE HAZARD OF DEPENDENCY FOR NORMAL PERSONS

(*Adapted from chart on page 196 of "Life Underwriting as a Career," through the courtesy of Harper and Brothers, Publishers*)

penses for children might be considered in the nature of both an investment for the future welfare and prosperity of the child himself and also a contribution toward higher civilization for society. In addition, the increased earnings which will accrue as a result of training and education in youth may be used to provide for parents later, who, though perhaps self-supporting throughout a long life, may become dependent in old age. It seems both commendable practice and

sound economy that children be given education and training, even at the expense of luxuries or some comforts of the family, since, in the long run, such investment can be returned. Unfortunately, however, in some instances children fail to make a commensurate return for the investment their parents have made in them, but society as a whole benefits from the education of its youth.

Dependency might be said to be the normal state or rather the ideal state of children until age eighteen or twenty, if by that we mean it is the period during which they are fitting themselves for life's work. From the standpoint of the individual and society at large, it would seem to be desirable that young persons should be freed of financial responsibility during their formative years when they are getting their training and education. However, in the year 1920 it appeared that 6 per cent of the male children between the ages of ten and thirteen were gainfully employed, 23.3 per cent between fourteen and fifteen were employed, and 58 per cent between sixteen and seventeen were employed.[1] In the vast majority of cases, the earnings of the children were necessary to supplement the family income; and, instead of being dependent, these children, in the vast majority of cases, were supporting themselves and helping to support others. In other words, a high incidence of child dependency would indicate a fairly prosperous condition for the mass of the people; while, conversely, a large percentage of children at work would indicate either a poor society or an inequitable distribution of wealth.

[1] *Statistical Abstract of the United States,* 1925, p. 46.

The term "dependent children" usually signifies those children who must rely either upon public or private charity for a living. It is a term employed by the Census Bureau to designate those children who are public charges and is generally accepted as applying to those who have lost their parents and are dependent upon the public for a living. However, in a broader sense of the word, all children are dependent in the sense that they are unable to earn their living according to the standards of our present state of economic development, and in the present discussion it will be taken to include all individuals up to the age of twenty.

Extent of Child Dependency.—It appears from the 1920 Census that 40.6 per cent [2] of the population was under twenty years of age and 25 per cent [3] of these minors were gainfully occupied, leaving 75 per cent, or some fifteen million minors, dependent upon their families, relatives, or society for support. Since a large proportion of these are young children, there is a heavy drain upon family resources for a number of years. Obviously, if the head of a family dies without leaving adequate funds to support his family until the children are self-supporting, one of several things must happen: (1) The widow must go to work; (2) the children must go to work; or (3) the widow and children become dependent upon charity.

These alternatives are all undesirable, varying only in degree of undesirability. The objection to the first

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[2] *Ibid*, p. 13.

[3] *Ibid.*, p. 46, Table 39; estimated from Table 39 and Table 14, p. 13.

is discussed in Chapter III, so only the second and third are considered here.

Objections to Child Labor.—In the vast majority of cases, the employment of children is a detriment to their future success and happiness. Their education and training are interrupted and their chances of success later in life are thereby greatly reduced. Frequently they are employed at poor jobs with low pay and in occupations offering little chance for advancement. Not infrequently they must work in unsanitary and unhealthful surroundings, exposed to accidents from machinery and evil influences from bad company, associating with older men and women not always of high moral character. Working children are beset by many temptations that would be serious to older people and these hazards are naturally greater for employed children who are unguided by thoughtful parents. Hence their health, morals, and ambitions must often suffer accordingly.

Objections to Charitable Aid for Children.—For the vast number of children left without visible means of support, charitable aid of any kind is preferable to their employment; but where any resources at all exist providing for the child's welfare until he is able to support himself, they should be availed of instead of making him a beneficiary of charity. In the past, charitable care of children was practically synonymous with institutional care, which often meant that the children were deprived of family associates and were forced into almshouses, orphanges, or homes for dependent children, which branded them as charity wards and subjected them to mass discipline. This

was justifiable, perhaps, from the standpoint of the institution, but unnatural from that of the wellbeing of the children.

Charitable Care of Children in Their Own Homes.—The growth of mothers' assistance funds in the more progressive states indicates that the modern conception of charitable care for dependent children is that they should be provided for in their own homes. This not only keeps the family together and gives the children the benefit of the mother's care but also often guarantees a longer life to the mother, since she otherwise might go out and work long hours at low pay and soon wear out. Under mothers' assistance funds, the state provides funds for mothers to care for their children in their own homes, thus giving the children the benefit of the mother's care and guidance, and enabling her to raise them after the manner in which she and her departed husband had planned. If one is to judge from the experience of the Board of Child Welfare of New York City, it would appear to be more economical, from the standpoint of the state, to care for children in their own homes than in institutions:

In 1922, 27,195 children were kept in the homes of their mothers by a City appropriation of $4,534,609, which was about half of what it would cost the City to keep them in institutions. During 1922 the City paid $4,152,405 for 13,175 children in institutions.

It cost the City an average of $26.27 per month to keep a child in an institution. It cost this Board an average of $13.96 to keep a child in the home of its mother.

There were under the care of the Board of Child Welfare for 1923, 23,108 children and 8,440 widows. It cost the

City $4,517,106.32 to take care of this number in the homes of their own mothers.

As against this, the City paid the sum of $4,032,700 48 to provide for 13,690 children in institutions—in other words, it cost the city $28.40 a month for a child in an institution, and it cost the Board of Child Welfare a little over $15 in its own mother's home.[4]

Life Insurance and Child Dependency.—In addition to providing for its own needs, the current generation must assume the obligations both of the coming generation that will ultimately supplant it and of the old one that has done its work. With 85 per cent of the income earners in the country receiving an income of less than $2,000 a year, it is obviously impossible for any appreciable proportion of them to set aside adequate funds for the care of children in the case of untimely death. However, through life insurance, breadwinners are enabled to create modest estates which provide a living for their children for at least a few years. For instance, it would take the average breadwinner a good many years to accumulate a fund of $1,000 to be used for the living expenses of his children in case of his premature death; but, for a premium of say $30 a year, he can create a life insurance estate immediately. This, in effect, is a loan for $1,000 canceled at death, purchased for approximately 3 per cent per year. Thus for a small annual saving, an estate of $1,000 is guaranteed to his heirs, and this, frugally conserved, will provide a living for one child for four or five years, at present standards of

[4] Seventh-Eighth Annual Report of the Board of Child Welfare of the City of New York, 1922 and 1923, p. 3.

living, or subsistence for several children for several years.[5]

Over one half the life insurance written in this country is in favor of wives, and this will probably always be the case, since the responsibilities of the household fall upon the mother when the breadwinner dies. However, possibly the major portion of this insurance is used in caring for children, in providing not only clothing and shelter but also education. Wives and mothers, as beneficiaries, serve as practical guardians or trustees of funds left for the use of the entire family.

Dependent Old Age

Dependency faces all those whose power of earning a living is gone or is fast declining. For those who have been unable to save a portion of their earnings during the productive years of life, dependency is a certainty. The great majority who have not accumulated, inherited, or preserved a competency by the end of their period of maximum earning power then have little hope of doing so. Even those who have saved some money may lose it, and the older they are, the greater the risk of doing so.

Society provides in one way or another for its aged, sometimes crudely and inadequately and at others scientifically and generously. In a country given to individualistic traditions, it is highly desirable that the citizens provide for their own old age in order that they may spend their declining years with the

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[5] Paul H. Douglas, *Wages and the Family*, p. 212.

same independence and individuality that characterized their early years and so make unnecessary the sorrows and bitterness attendant upon accepting charity from relatives or the state.

The problem of old-age dependency is as old as history itself. In early times, the aged were killed since they were but a drain upon the resources of the tribe in its migrations from place to place when food was scarce and difficult to obtain. This practice still exists among some savage tribes. Later, the aged were tolerated but little cared for and their welfare depended upon that of their children or the charity of churches. In modern times, the tendency is to make their last years as comfortable as possible. The care of the aged at any time depends largely upon the needs and wealth of society, so that in a country as rich as the United States there is little excuse for the misery or squalor of the aged poor.

Causes of Old-Age Dependency.—The Committee on Pensions of the State of Massachusetts,[6] which has made one of the most comprehensive surveys of old-age dependency ever attempted in any country, in its report on this subject says:

> It is fruitless to try to approach these questions by attempting to determine to what extent society and to what extent the individual is to be blamed for the poverty which prevails among the aged. Any thoughtful study of the statistics that are brought together elsewhere in this report is bound to lead to the conclusion that the causes of old-age dependency are multifarious and complex.

[6] The Committee on Pensions of the State of Massachusetts, "Report on Old Age Pensions," 1925, Massachusetts, p. 25.

Among the aged poor there are some who have misused their opportunities or have squandered what they might have saved. There are others whose poverty is attributable to mental or physical defects, to sickness, accident, widowhood or some other misfortune. There are some who never have been able to earn more than a meager living for themselves and their families. Indolence, lack of foresight, lack of moral fiber, an inadequate mental or physical equipment, lack of judgment, adverse fortune—these and other factors have played a part.

Probable Extent of Old-Age Dependency.—Unfortunately there are no data available showing the extent of old-age dependency in the United States. A number of progressive states have appointed commissions from time to time to study the problem within their state borders and it is upon their findings that one must draw chiefly in order to estimate the probable extent of the national problem.

The Old Age Pension Commission of Massachusetts found that 15.6 per cent of those age sixty-five and over and 20.8 per cent of those seventy and over [7] were supported by public funds or by private organized charity. This presents but a very inadequate picture of the dependent aged, however, since it excludes those supported by children, relatives, and friends. For instance, it was found that 16.8 per cent [8] of this class (in a sample of 17,420 persons) had no income whatsoever and that 32.4 per cent had incomes under four hundred dollars a year, which sum probably represented the minimum cost of subsistence for

[7] *Ibid*, p 37.
[8] *Ibid*, p. 49.

a year. Thus it seems reasonable to assume that one-third of the old people not dependent upon public or private charity are, nevertheless, dependent upon relatives and friends for support. This seems to be in substantial accord with population figures, since, according to the 1920 census, 60.1 per cent of the males sixty-five years of age and over and 8 per cent of the women were gainfully occupied. This would not necessarily mean, however, that the wages received from the gainful occupations would be sufficient entirely to provide for these workers, since many of them are in the nature of supplemental occupations at very low pay. Thus many of those reported gainfully occupied are partly supported by members of their families, relatives, or friends. It is also possible that Massachusetts is above the average in the thrift and property holdings of its citizens.

Life Insurance and Old-Age Dependency.—The old method of caring for the indigent aged was to send them to the poorhouse, the almshouse, or some similar institution; but in recent years, with more enlightened methods of social work, there is a tendency to provide for them in their own homes, on much the same basis as the charitable care of dependent children. There has been considerable agitation for old-age pension legislation in several states and a number of commissions have been appointed to study the extent, causes, and solution of old-age dependency.

There are two general methods by which the aged may be cared for; the first is through state or social effort and the second is through the individual's own efforts during his earning period. State old-age pen-

sions are generally the solution for the first method and various forms of life insurance contracts and annuities of the second. Each has its respective merits and limitations and both are probably necessary in our social organization of to-day. Broadly speaking, old-age pension legislation is necessary for those in the lower income groups who are unable to set aside any savings from their earnings for use in old age. Those who by sex, occupation, or physical impairment are excluded from the pension plans which many industries already have or are formulating must be cared for by state provision. This can be done more economically, scientifically, and humanely through pension plans involving sound, actuarial principles which will provide funds to support dependent aged persons in their own homes than by merely providing a living in almshouses and similar antiquated and expensive homes for the aged.

Industrial Pensions in the United States

Dependent old age is not exclusively a problem of industry, since it affects all classes and groups of the population. However, industry has the responsibility of caring for workers who have served long and faithfully in their occupations and have contributed to the development and growth of the industry. Some occupations by their very nature prematurely wear out workers, particularly those in which high-speed tools and methods of production are necessary or those that require heavy work and exertion on the part of workmen. In the past, many workers were used in industry as long as they were useful, and as soon as they

became weak, sick, crippled, old, or inefficient, they were let out of their jobs. Because of physical impairments or advanced age, they have often been able to get no other jobs or else only very poor ones at low pay. Many have become dependent upon public and private charity and others have gone to premature graves rather than become a charge upon their children or the State.

It is not only out of mere sentiment, however, that industry provides for certain of its aged workers. In some plants, old workers are frequently kept on the job beyond their period of usefulness when it would be more profitable to retire them and replace them by younger, more efficient workers. They often retard the speed and efficiency of an entire plant and become exposed to accident hazards which affect not only their own safety but that of fellow workers. A railroad engineer kept on the job too long and suffering from dimmed eyesight and dulled faculties may cause a wreck costing many lives and hundreds of thousands of dollars damage to the railroad—enough to pay life pensions to all the old engineers on the road and save the company thousands of dollars besides.

In a study made of the extent of industrial pensions in the United States in 1925, it was found that there were 2,815,512 employees covered by pensions in 245 establishments[9] and further that 35,953 pensioners were already on the rolls of these pension plans. Thus only between 6 and 7 per cent of the gainfully occupied were covered by pension plans of one sort or

[9] National Industrial Conference Board, "Industrial Pensions in the United States," p. 7

another. Recently a number of prominent churches have inaugurated pension plans to care for their aged and retired ministers.

As far as the general problem of old-age dependency is concerned, it is obvious that industrial pensions can never solve the problem, since they affect at best but a very small percentage of the gainfully occupied workers at any time and an even smaller proportion of the entire population.

Pension Plans of Life Insurance Companies

Old-age pension plans of life insurance companies seem to offer a partial solution to the problem of dependency. Such plans seem to be supplemental to old-age pension legislation, which chiefly takes care of workers in the lower income groups. Through pension plans of life insurance companies, it is possible for employers and employees to coöperate to provide pensions for the latter. Such plans usually have a number of advantages to both parties. From the standpoint of the employer, the responsibility is shifted to the life insurance company, which is better equipped to make a scientific study of the pension needs of the group under consideration and to determine its cost without the entry of personal bias. From the standpoint of the employee, the life insurance company gives him a certain contract unaffected by conditions of his employment, free from the personal likes and dislikes of his employer, and, finally, backed up by the financial strength of the insuring company, thus freeing him from worry over the hazard of financial embarrassment in his particular concern or industry, such as

might have a very serious effect on an industrial pension plan.

But probably most important of all, through annuities of various forms, life insurance companies make it possible for private citizens, whether gainfully occupied or not, to assure a future income for their old age. Thus, parents are enabled to buy old-age pensions for themselves and even for their children and assure the latter a living long after the former are gone. Those who continue in industry only for a period and then retire because of marriage or acquired fortune can thus provide with certainty for the financial needs of old age.

The great advantages of having a life insurance company assume the responsibility of old-age pensions are:

1. It is particularly adapted to this business, since it continually deals in mortality, investment of funds, and actuarial matters related thereto.

2. It is an organization separate and distinct from the industry and is absolutely impersonal in its operations.

3. Its investments are diversified over a great many fields, so that it is much more stable in time of financial crisis and industrial depression.

4. The pension is a contractual obligation between the insuring company and the pensioner and as a rule can be kept up by the worker irrespective of where or for whom he is employed. Thus it is not necessarily dependent upon length of service at any given establishment or subject to changing policies of administration in given plants.

5. Life insurance contracts are also adapted to pension uses. For instance, one may take out life insurance in his youth for the benefit of his family. When his children become self-supporting and there is no longer any need of protecting his life value for the benefit of others, he can take the reserve value of his policy and purchase an annuity at his attained age.

A great many life insurance contracts are combined with pension plans, as twenty-payment life policies with endowment at age sixty-five, or a life income beginning at some certain age in the future. These contracts take care of members of the family in their immature years and, when their needs have passed, provide for the insured himself.

Dependency in Middle Life

In addition to childhood and old-age dependency, there are certain groups of the population under our present organization of society who are dependent upon others for a living even in the middle periods of life. They might be roughly classified as:

1. Housewives and single women not gainfully occupied and depending upon some one else for a living
2. Young men and women training for professions or highly technical occupations
3. The defective, crippled, delinquent, criminal, insane, sick, and disabled

Dependent Housewives.—Under our present organization of society, housewives receive no wages for their services to the family; yet their contribution to the welfare of the family is generally as great as, if not

greater than, the breadwinner's. Marriage in its economic aspect is a business partnership in which there is a division of labor; the man earns the living and the woman bears and rears children, cares for the home, and manages the household. The worker's earnings constitute his contribution to the family unit and they are consumed by the entire family. At his death the family loses, not only its source of income, but also its functional organization; and, where no funds have been set aside to provide income until the children are old enough to earn their own living, the housewife and mother has to enter industry, generally at a great disadvantage. She is usually untrained for occupations outside the home, she is usually past the prime of life, she belongs to no labor organization to bargain for adequate wages, her working hours are crowded with the worry of what her children are doing at home alone, and, after the day's work is done, she often has to care for her children in addition to doing her housework.[10] She thus not only keeps up her own duties but fills her departed husband's place as well.

The Probable Number of Dependent Women.—The 1920 census reported 27,914,783 females between the ages of twenty and sixty-five, and, if the 6,578,927 "gainfully occupied" women at these ages are deducted from this number, there were 21,335,856[11] "unoccupied" females that year. Possibly not over 5,000,000[12] of these had incomes from property or se-

[10] See above, Chapter III, p. 72.
[11] *Statistical Abstract of the United States,* 1925, p 46, Table 39.
[12] Estimated from *Statistics of Income,* 1924, pp. 113-115.

curities, so that in 1920 at least 16,000,000 women were dependent upon male workers for a living.

Life Insurance and Dependent Women.—Possibly around 70 per cent[13] of the life insurance in force in this country is payable to housewives, mothers, sisters, aunts, nieces, and grandchildren of insured persons. On the basis of the 1926 figures for insurance in force, this means that $66,500,000,000 is provided for their future living in case of their breadwinners' deaths, an average of possibly $4,000 for dependent women. A large part of this, however, must be used for last illness, debts and funeral expenses, and the remainder by other members of the family, since life insurance is left for the use of families rather than for the exclusive personal use of the wife or mother. Taking into consideration the number of years a woman can expect to live after her breadwinner's death, the amount of insurance protection available is far from adequate. Under present living conditions, an average of $4,000 per family would provide a living for three years at the most, even were a large part of this moderate amount not consumed by debts and funeral expenses

Young Men and Women Training for the Professions or Highly Technical Occupations.—The period of training for many professions and highly technical occupations is already long and there is a growing tendency to lengthen them. Countless new inventions, complicated problems of living in great cities, the conquest of disease, are but a few of the factors calling for long years of preparation on the part of

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[13] Estimated from *Life Association News,* June, 1925, p 727.

those who are to solve the problems of a complex and high-speed civilization. Even for the common man, high school or college is a necessity to-day, though the sixth or eighth grade of public school was sufficient to assure moderate success a decade or so ago. Though long preparation for life's work is the best investment that can be made for any individual, yet he must be supported by his family, a research or educational foundation, or some other organization until training is complete and he begins to earn his own income.

Other Dependents.—Other dependents are the defective, crippled, delinquent, criminal, insane, sick, and disabled. These are the classes usually thought of as dependent, chiefly because they are public charges. Some are dependent throughout their entire lives, others merely for a few years. In the aggregate, they constitute the institutional population of the country supported by public and private charity. In 1923 they numbered approximately 894,000 persons[14] exclusive of the sick and disabled, about eight-tenths of one per cent of the population. In addition, that same year approximately 5,000,000 patients were treated in hospitals. The large majority of these patients, however, were not dependent but paid for services rendered. The cost of supporting these institutions is borne by the public either through taxation, in the case of public institutions, or through charitable subscriptions and bequests, in the case of private ones.

Life Insurance and Miscellaneous Dependents.—One of the greatest services life insurance offers to

[14] Department of Commerce, Washington, D. C.

miscellaneous dependents is for bequests to institutions caring for them. By the very nature of some of their ailments, a number of classes of dependents must be cared for in institutions rather than private homes, even where the families are financially able to support them. Institutional care frequently means expense of plant and equipment, a large and trained personnel, research laboratories, the keeping of statistical records, and adequate medical treatment of the inmates. Individuals can make the bequests to such institutions through life insurance and thus provide for them in the most economic and efficient manner possible.[15]

Healthy individuals who procure insurance may also insure against permanent and total disability in most cases and thus provide for their own maintenance or that of their families should disabling accident or illness befall them later in life. The hazards of total and permanent disability have been pointed out forcibly by a recent writer on the subject, as follows:

> . . . The likelihood of becoming disabled before age sixty and receiving benefits for a longer or shorter period is over three-fourths as great as the risk of dying before that age. The risk of becoming disabled before age sixty and continuing in this condition for at least two years is several times as great as the chance of death from accident before age sixty. In fact, the chance of becoming disabled before age sixty and remaining so for at least *ten years* is nearly as great as the probability of death before age sixty from such an important cause as heart disease.[16]

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[15] See below, Chapter VI, p 176.

[16] "Protection for Disabled Policyholders," *The Annuals,* 1927, pp. 45, 46.

It is significant, too, that 18 per cent[17] of the disability cases under life insurance contracts are caused by accidents and 5 per cent by insanity and related mental debility. Both of these causes, in the majority of cases, are the result of our present high-speed organization of society.

Through the disability provision in life insurance contracts, insured persons may provide small incomes for their families in the case of such misfortune and the insurance contracts still continue in force.

Life Insurance and Criminals.—The causes of crime are many and varied, but one important condition conducive to crime is the environment of the criminal during his formative years. Thus the children of the tenement, the underworld district, or poor quarter of a great city, brought up in squalid surroundings and abject poverty, have many more temptations to overcome than have the children in the homes of well-to-do parents or even those in comfortable circumstances. The proportion of criminals who are criminal through heredity is probably very small; the majority of them are the victims of environment. An investigation of a number of prisons throughout the country has revealed the fact that very few of the inmates had any possessions other than a few personal belongings at the time of commitment; when any degree of wealth and savings was found, it was usually among a few intelligent criminals.[18]

Life insurance, protecting the home, provides for

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[17] *Ibid.*, p. 44.

[18] Research Department, Edward A. Woods Co.

children in their formative stage and gives them an opportunity for training and education for life's work. At the same time, they receive instruction in the regulations of society, the right and privilege of holding property, and the necessity of peace and order. Those who are in modest circumstances are usually able to associate with the right kind of people, and, through their influence, that of the church, and other constructive institutions in the community, they are enabled to form at least a minimum code of ethics which means peace and good citizenship later in life. As far as financial condition influences the life of any one, life insurance is adapted to his need.

Conclusion

Dependency of all kinds is costly. In the case of children, it is an investment for the current generation to provide for their rearing and training, since in due time they will become producers. Caring for the aged is both humane and just, since, in many cases, they represent those who have made sacrifices for the current generation. In the case of the defective, the crippled, and the insane, it is to the interest of society that they are cared for in institutions where they will be under constant observation. However, the cost of those unnecessarily dependent and of criminals is far too large even for such a wealthy country as this, and it is more economical to teach these people to help themselves than merely to provide a living for the former and to keep the latter penned up to satisfy justice.

When once the causes of dependency and crime

are more thoroughly understood, appropriate steps can be taken to greatly reduce them. Life insurance, in stabilizing economic conditions, prevents much dependency and at the same time inculcates thrift into the worker, thus acting as a character builder as well. By pointing out the necessity of adequate care and training of children, it becomes an important step in the right direction.

CHAPTER V

THE RESPONSE OF LIFE INSURANCE TO SOCIAL NEEDS

I. Industrial Insurance

The fundamental purpose of all forms of life insurance is to capitalize the money value of human life and, as far as possible, replace its loss. This earning power may: (1) cease entirely because of death or complete incapacity due to old age, illness or accident; (2) be partly destroyed by partial impairment from disease, accident, or waning powers in advancing years, or (3) be temporarily interrupted by illness or accident. The principles and practices of the business have differed widely in the past, and even to-day there is a great diversity in the forms of life insurance protection. While the methods of insurance are many, the system is really one. The form of insurance protection is determined largely by the time and circumstances in which it exists, but scientific life insurance developed concurrently with the sciences of statistics and medicine.

In the Middle Ages, the craftsmen's guilds took care of the dependents and provided for the burial of their members; and when the guilds gradually passed out of existence or were abolished by sovereign command, other agencies sprang into existence for supplying the social relief that they offered to families

of workmen. For instance, after the destruction of the guilds in England by Henry VIII, friendly societies and burial clubs came into existence, which substantionally fulfilled some of the essential functions of the former guilds. One of these was the proper burial of the dead.

Industrial insurance developed out of these clubs and societies in England, the first company for transacting this business being founded in 1849,[1] under the name of Industrial and General. This was later absorbed by the Prudential Assurance Company, which began the transaction of industrial business in 1854. The development of industrial insurance was in response to the need for an extension of insurance to the masses, a need which had been stressed by a parliamentary report in 1853 on "Assurance Associations." This report had pointed out that life insurance institutions were comparatively limited in scope and that their benefits should be extended, not only to the higher and middle classes of society, but also to the humbler. Up until this time, life insurance had been available only to the middle and upper classes.[2]

Beginning of Industrial Insurance in America

Industrial life insurance was first written in this country by the Prudential Insurance Company of America, which was organized under the name of the Prudential Friendly Society as a friendly society to

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[1] Frederick L Hoffman, *History of the Prudential Insurance Company of America,* p. 5.
[2] *Ibid.*

transact this class of insurance under the leadership of John F. Dryden, known as the father of industrial insurance in America. Soon after commencing business on the industrial basis, Mr. Dryden visited England and made a study of the methods and results of the British Prudential Insurance Company and other large friendly societies which were very successful in transacting industrial insurance. As a result, Mr. Dryden gained much additional information and upon his return not only materially changed the practical working basis of the society, but at once took steps to reorganize it on a purely commercial basis and to change its name to the Prudential Insurance Company of America. The charter of the Prudential Friendly Society was amended and passed the New Jersey legislature in 1877. From this humble beginning, industrial insurance grew to its present enormous proportions.

Principal Features of Industrial Insurance

While industrial life insurance is fundamentally the same as ordinary life insurance as far as sound actuarial principles are concerned, there are a number of ways in which it differs:

1. Industrial premiums are payable weekly.
2. Premiums are collected from the house of the insured by an agent of the company instead of being remitted to the office of the company.
3. The amounts of insurance are adjusted to the premiums. The amount purchased is based upon a premium of five cents a week or multiples thereof at the insured's age.

4. Every member of the family may be insured for a small weekly premium.

One writer has described industrial insurance as *mass* insurance and ordinary as *class* insurance.[3]

The first point is one of the great advantages of industrial insurance. The great mass of wage-earners in this country are paid weekly and their weekly wages are practically consumed in the same period. It is practically impossible for them to lay aside a quarterly premium for ordinary insurance, but paying a weekly premium on industrial insurance enables them to have some insurance protection on a secure and certain basis. Also, the vast majority of wage-earners until very recently have had no checking accounts in banks. Hence it was not feasible to remit insurance premiums to a distant home office or even to a local district office. It is a great convenience and almost a necessity to have agents call at homes to collect weekly premiums. Not only does the agent of the company serve as a collector, but he attempts to place new insurance, so that he is an educational force developing habits of thrift.

Until the advent of group life insurance, there was in this country very little advocacy of life insurance protection for the masses outside of the work done by industrial companies, the fraternal orders, and assessment associations. Thus life insurance was generally available only to the middle and well-to-do classes through the personal solicitation of individual agents.

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[3] *Ibid.*, p. 3.

While assessment and fraternal insurance organizations did a great work in educating the public to the need of minimum insurance coverage, at least for the heads of households, they did not serve members of their families nor the great mass of the wage-workers. The third point above, insurance purchased by a given premium, was a departure from the insurance practice and yet made an appeal to wage-earners, who think of insurance in terms of what they can save per week, as fifty or sixty cents out of a pay roll, rather than as a given amount of protection. The middle-class worker or the well-to-do man, on the other hand, can visualize the capital needed to provide for his family's protection, to educate his children, or to meet some other event and provide for it by insurance.

The availability of industrial insurance to every member of the family is a real service. Thus, the children of a family could be insured for a small sum which would pay funeral expenses, while a larger premium on their parents would provide a sum that would pay the expenses of last illness and burial.

The Purpose of Industrial Insurance

The chief purpose of industrial life insurance is to provide for burial expenses and the cost of last illness of every member of the family, and thus make unnecessary the assistance of charitable agencies. The great mass of self-respecting American wage-earners abhor pauper burial, charitable aid in caring for their sick, or charitable relief of any kind. Formerly, over one burial in every ten was directly charitable while many more were indirectly so, since paid for by kindred,

friends, employers, churches, and fraternal orders. Many a thrifty wage-earner who has laid by a tidy little sum out of his meager savings has had it wiped out by the last illness of one of his loved ones, and it is one of the purposes of industrial insurance to provide a fund which will take care of this. Thus it is a conserver of estates for the lower group of wage-earners. Those near the poverty line have certain standards of living and certain customs with regard to the burial of the dead that make a pauper burial a great calamity, and the tremendous growth of industrial insurance is possibly due in large part to this feeling.

Industrial insurance has been used to such a great extent for burial purposes that it is sometimes known as burial insurance or death insurance. Unfortunately, certain evils have developed out of an originally laudably conceived purpose. For many years there has been a very close correlation between the amount of the undertaker's bill and the deceased individual's amount of industrial life insurance. In many instances, industrial insurance policies have been assigned to undertakers who have furnished funerals for which far less would ordinarily have been paid. Charitable organizations have again and again pointed out that too often the kind of funeral a family has depends upon the amount of industrial insurance carried.

The fault is not general among undertakers but is usually traceable to a few in each locality, and the industrial insurance companies have been very active in discouraging this practice. One of the largest of

them recently appointed a commission to study burial costs and make appropriate recommendations. Elaborate funerals are often a fetish among certain classes of the poor and are but survivals from ancient times when the burial of the dead called for elaborate rites and ceremonies.

Advantages of Industrial Insurance

Industrial insurance has several advantages for those who are unable to save money for future contingencies or to carry ordinary life insurance. They are as follows:

1. It is easy to procure. Examinations are elaborate in direct proportion to the amount of insurance carried. It is also possible to insure every member of the family from infants to old people seventy years of age.

2. A weekly house-to-house collection by agents makes it possible for policyholders to pay their premiums conveniently, and the weekly calls of such agents keep them in close touch with the conditions of the family and give the man opportunity to stress the importance of insurance and other forms of thrift and, at the same time, keep down the number of lapsing policies.

3. Such insurance provides a fund for burial purposes and thereby conserves the meager estates of this class and in a way that avoids pauperizing.

4. The soliciting agents of such companies form a great social force in the prevention of disease and in disseminating health information and other material of social importance to their policyholders.

Disadvantages of Industrial Insurance

There have been criticisms of industrial insurance, and some of its disadvantages have been forcibly outlined. However, these are more properly an indictment of the inequitable distribution of wealth than a good case against industrial insurance. Most disadvantages of industrial insurance are only comparative. The following are usually pointed out as its chief disadvantages:

1. Industrial insurance costs are too high. This is necessarily so because of high overhead costs in handling the tremendous detail involved in (weekly) collecting premiums at homes and also because of the expenses of handling such accounts in the district and home office of the company.

2. The high mortality of industrial risks. Industrial insurance is placed chiefly upon wage-earners of the lower income groups, which include many engaged in hazardous occupations. Many families must live in unsanitary and unhealthful surroundings conducive to disease and high mortality.

3. High lapse rates. Industrial life insurance for many wage-earners is a marginal expenditure, that is, when their earnings are low or their cost of living high, it is one of the first expenditures to be curtailed. Thus a high lapse ratio seems inevitable. Industrial policies usually provide for the issuance of a paid-up policy for a lesser amount in case of lapse, providing the policy has been in force for three years or longer.

Growth and Extent of Industrial Insurance

The phenomenal growth of industrial insurance since its modest beginning in 1876 is strikingly shown in Chart B. It is significant that it tripled in the last decade in spite of the great increase in group insurance

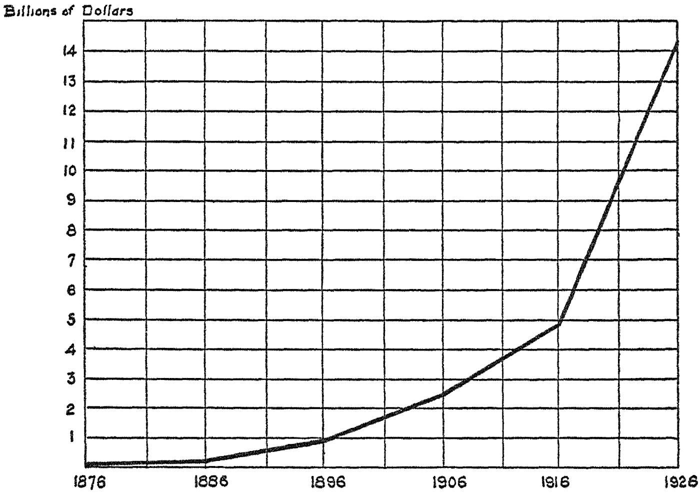

CHART B.—GROWTH OF INDUSTRIAL INSURANCE IN FORCE, 1876-1926.

on workers in the same period. There has been some question as to the effect the wide extension of group insurance, particularly that of a contributory nature, might have upon industrial insurance. Judging from Chart C, it seems to have had little, if any, adverse effect upon industrial coverage.

Not only has the aggregate amount of industrial insurance increased, but the average size of policy has grown apace. In 1876 the average amount per

policy in force was $92, in 1896 it was $120, and in 1926, $171.[4] Thus, individual industrial coverage

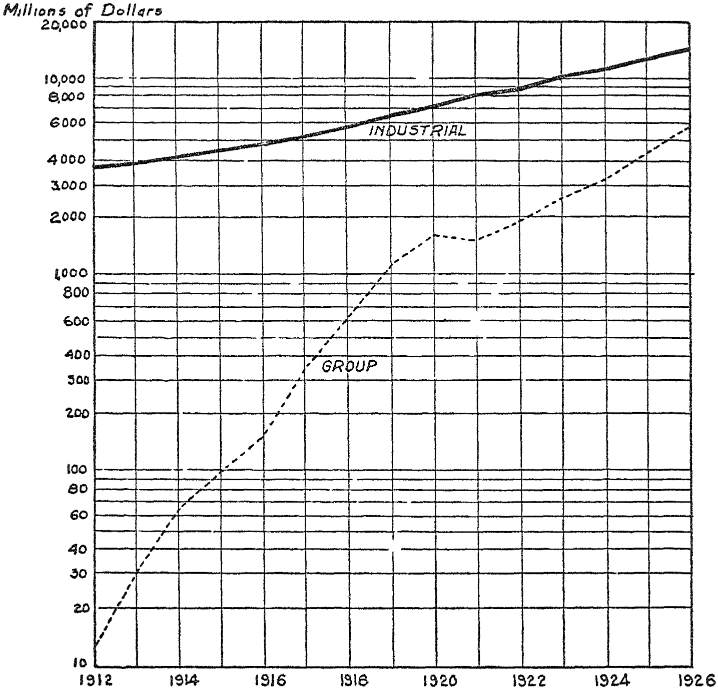

CHART C.—GROWTH OF GROUP AND INDUSTRIAL LIFE INSURANCE IN FORCE.

seems to be increasing with rising costs of living and wages of workers.

Social and Economic Significance of Industrial Insurance

In spite of the high cost of industrial insurance, it is of great social and economic importance because:

[4] *Insurance Year Book,* 1926, p. A 319.

1. It materially reduces the amount of charitable contributions for last illness and burial of wage-earners. Through their own provision, industrial policyholders provided $100,000,000 last year for such purposes through industrial death claims and the following table indicates the tremendous sums that have been saved taxpayers in the last decade, who would otherwise probably have had to provide a large part of these sums either through public or private charity.

TABLE III

INDUSTRIAL INSURANCE DEATH CLAIMS

Year	*Amount*
1917	$ 57,958,520
1918	87,374,918
1919	64,111,036
1920	64,616,678
1921	64,730,339
1922	71,127,966
1923	80,456,771
1924	91,854,791
1925	104,968,859

2. It undoubtedly has a salutory effect upon the thrift habits of the millions of industrial policyholders. The weekly calls of the premium collector and his constant emphasis on thrift undoubtedly play a large part in encouraging other forms of savings. It has been found in a number of investigations that the ownership of homes is greater among industrial policyholders than among the general body of noninsured wage-earners.

3. Industrial insurance relieves the workers' minds

from the fear of a pauper's grave and thus directly makes for self-respect, improved efficiency on the job, and greater happiness in the home. Insurance on the lives of his family also reassures him that his meager savings will not be wiped out in case of their premature death. Unlike the enervating effect of the British dole system, industrial insurance is character building.

4. It is applicable to every member of the wage-earner's family with very few exceptions. Until very recently, ordinary insurance was issued chiefly on the lives of heads of families and was designed for family protection. There were many restrictions placed upon insurance issued on the lives of women and practically none was available for children under fifteen or adults over sixty or sixty-five. Recently the insurance ages have been extended both up and down and many restrictions that once applied to women have been removed.

5. Through industrial and group insurance, large numbers of colored people are insured who could procure other insurance only with difficulty, if at all, owing to ill considered legislation passed in the reconstruction period following the Civil War, providing that negroes be insured at the same rates as whites, notwithstanding their well-known higher mortality. The result of such laws was that most ordinary companies declined to insure them at all or would do so very rarely.

Industrial insurance is still the only medium in this country by which wage-earners of the lower income groups may provide against their most urgent

necessities. There has been no fraternal organization nor governmental enterprise to furnish the same protection at the same cost on a comparably sound basis, and the fact that it is still growing tremendously in spite of high wages, generally improved living conditions, and reduced cost of ordinary insurance would seem to indicate that there is still a great demand for it. When the detail involved in handling millions of weekly premiums of a few cents each is considered, industrial insurance seems a marvelous achievement of civilization.

Wage-earners now are in a much better position to carry ordinary insurance than they were even a decade ago and it is possible that the number of wage-earners who now have ordinary policies is much greater than a few years ago.

Finally, industrial life insurance, like fraternal and assessment life insurance, has served as a great educator of the masses and has taught them the purposes, functions, and importance of life insurance coverage.

II. Intermediate Insurance

Intermediate life insurance developed from industrial insurance and is similar to ordinary with the exception that the units of insurance are less than a thousand dollars, usually being five hundred dollars. It is intended primarily for those who can afford more than industrial insurance but less than ordinary. Premiums are payable annually, semiannually, or quarterly, and are somewhat higher proportionately than those for ordinary insurance, chiefly because the

mortality of intermediate policyholders is above that of ordinary policyholders. A number of insurance companies accept substandard risks for insurance on this plan, which accounts, in part, for the higher mortality.

III. Group Life Insurance

Next to industrial insurance, group life insurance has perhaps been the most important recent development. It is especially significant from the social point of view, since it primarily affects the welfare of workmen and their families. A worker has four great fears, the fears of sickness, unemployment, old age, and premature death, particularly as they affect the welfare of his family. Group life insurance has been designed to take care of the last of these hazards, and also of the first, when it results in the permanent disability of a worker.

Growth and Extent

First introduced in 1911 by The Equitable Life Assurance Society of the United States, it developed with remarkable rapidity until on December 31, 1926, the group policies in force approximated $5,700,000,000,[5] covering certificates held by some 4,700,000 workers. Counting members of their families and others dependent upon them for support, group insurance directly affects some fifteen or twenty million persons.

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[5] *The Spectator,* Dec 30, 1926, p. 7.

Industrial and Group Life Insurance

While both industrial and group life insurance are designed for the benefit of the masses, they differ in a number of essentials. While there are many million more industrial policies than group insurance certificates, the former cover not only wage-earners, but members of their families as well, from infants a few days old to old men and women. Group insurance is issued only on the lives of workmen gainfully occupied. The average amount of industrial policies in force is about $175, the average group policy around $1,200; thus the former counts for little more than a burial policy. Group insurance usually continues the worker's pay check up to a certain amount for a year after his death. It has aptly been called one year's notice of the death of the pay envelope. Thus the family have at least some time in which to readjust themselves to changed conditions.

Definition

Group life insurance has been defined by the New York Statutes to be

> that form of life insurance covering not less than fifty employees with or without medical examination, written under a policy issued to the employer, the premium on which is to be paid by the employer or by the employer and employees jointly, and insuring only all of his employees, or all of any class or classes thereof determined by conditions pertaining to the employment, for amounts of insurance based upon some plan which will preclude individual selection, for the benefit of persons other than the employer; provided, however, that when the premium

is to be paid by the employer and employee jointly and the benefits of the policy are offered to all eligible employees, not less than seventy-five per centum of such employees may be so insured.

The law contains eight points, enumerated as follows:

1. There must be a minimum of fifty lives.
2. The lives to be covered must all be employees of one employer, or all of the lives in any class or classes of employment.
3. These classes must be determined by conditions pertaining to the employment itself.
4. The amounts of insurance given to the various employees covered must be based upon some plan which will preclude individual selection.
5. The insurance benefits must be paid to some one other than the employer.
6. The policy is issued to the employer.
7. The premiums may be paid by the employer alone or by the employer and the employees acting jointly.
8. If the premiums are paid jointly, the coverage must be offered to all employees or all workers in any class or classes of employment, while the amounts of insurance on individual employees must be based upon some plan which will preclude individual selection, and at least 75 per cent of the eligible employees must be so insured.

Kinds of Group Life Insurance

Group life insurance is of three kinds, the types being known as free or non-contributory, contributory, and labor union.

Free or Noncontributory Group.—This was the kind first issued and is possibly the most widely used to-

day. It is probably the most valuable since it not only accomplishes the purposes of insurance protection but is entirely free to employees. From the standpoint of the employer, it costs comparatively little (roughly about three cents a day gross per one thousand dollars) and thus is an inexpensive method of providing against the hazards of industry.

Free group insurance is usually installed first in establishments where later contributory group insurance may be placed after the advantages of free group are understood. Where payments are shared by the employees, who do not understand the benefits of insurance, the insurance is generally less appreciated, since it entails deduction from pay checks. Where it is given outright, there is no antagonistic attitude developed by the workers, since nothing is taken from their pockets. The reasons generally given by employers for their preference for this form of group are:

1. In buying something for their employees, they desire to do it outright and not have any strings tied to it.

2. Group insurance is installed as an appreciation for loyalty and length of service and some employers therefore maintain they should pay the total cost.

3. Many employers think the total cost of the group plan is so small that it is too much trouble to get the agreement of 75 per cent of the employees to contribute towards the cost.[6]

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[6] Insurance Department, Chamber of Commerce of the United States, "Group Life Insurance," Insurance Bulletin No 9, pp 2, 3.

Contributory Group.—Under this form, the employer must pay at least 25 per cent of the gross premium under the New York laws, while the employees pay the other 75 per cent of their individual premiums; but they are not permitted to pay over sixty cents per month per thousand except where their occupations are rated as hazardous. The employer may pay more than 25 per cent of the premium but cannot pay less. Where the insurance is participating, as it is in a number of the large insurance companies, the employer or the employees may receive refunds paid by the insuring company, thus sharing the earnings of the insurance company. In the case of a favorable mortality experience, the employer is entitled to keep the refund, which is sometimes more than the 25 per cent he pays. Thus there is an incentive to provide safety appliances in his plant and cut down all accident hazards as well as promote the health of his employees.

The number of contributory group contracts issued is increasing, and many are placed as additional protection after free group has been placed. Under free group, the employer pays the full premium to the insurance company as it comes due. The contributory plan does not go into effect until at least 75 per cent of the employees eligible to be covered have agreed to contribute a certain fixed portion of the cost.

The advantages of group insurance on the contributory basis are:

1. Many employers believe that employees must understand it before they can appreciate it and that the best way of bringing this about is so thoroughly

to convince them of the benefits of the plan that they will be willing to contribute to it.

2. It sometimes happens that, in a year or two after group insurance has been inaugurated, the employers finds little interest shown in it by employees. It often develops that there has been a material change in the labor force and the new employees know nothing about the plan. Such a condition cannot exist under the contributory basis since, before any employee can receive its benefits, he must have the plan explained to him sufficiently to convince him that he should contribute to the premium.

3. Many believe that free group insurance is a form of paternalism, but this objection does not hold true for contributory. The best evidence that an employee wants group insurance is his willingness to help pay for it.

4. Because of the joint contributions of employer and employee, a broader coverage may be provided without too much strain on either. This may take the form of a larger amount of insurance for each employee or additional benefits, such as disability insurance or a retirement pension.[7]

Labor Union Insurance.—This is a form issued on employees of a city, state, post-office department, labor union, or similar organization, in which employees bear the entire cost. Under the laws of New York State, labor unions may take group life insurance for their members even though employed by various concerns.

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[7] *Ibid.*, p. 3.

This use of group insurance is not favored by life insurance companies, since it does not usually permit deductions from the pay. It is obvious that members of a labor union employed by many concerns scattered over wide areas must in some way set up machinery for the collection of premiums; whereas, where employees are covered by a group policy of one firm, an order on the pay roll may be given for the total monthly payments required.

Advantages of Group Insurance

There are a number of savings in issuing a large number of policies under one group contract. Where a large number are thus insured as a group, it has been found safe to issue the insurance without individual medical examinations. Thus a large amount in medical examiners' fees is saved, large especially in relation to small policies.

When insurance is issued on all or a large proportion of the employees of any employer at the same time, the danger of adverse selection is greatly eliminated, since a great majority of the employees are fairly healthy persons. Employers do not hire sickly people or keep them long in their employment. The very fact that people are actually at work is in itself evidence of group insurability. Another advantage is that some persons are thus covered by insurance who could otherwise not get insurance of any kind. In large groups of people, there are some in a physical condition which would preclude them from getting insurance individually. While the group must be of good average health, some members of it are much

healthier than the average and others are not so healthy because of age, illness, or disability, any or all of which causes would render them ineligible for insurance were a medical examination required. It is probable that, in any considerable group, 20 per cent [8] of those insured could not get insurance upon regular plans; but they are covered under group insurance at an exceedingly low cost.

Being issued on the yearly renewable-term plan, the cost is very low, and constant turnover in the labor force tends to keep the insurance age low. While the cost of the group varies in accordance with the type of industry, the age of employees, and the amount of insurance issued on them, the annual premium usually approximates 1 per cent of the total amount of insurance in force.

Another advantage is that it provides an organized method of relief to the families of employees in case of premature death. Many employers, especially in large industries, make some provision for the families of workers dying in their employ. In many cases, family relief is far more expensive and less satisfactory than when provided for through group insurance. Where there is no organized method of relief, each case has to be taken up separately, and perhaps the amount finally offered the widow proves so unsatisfactory that results are worse than if nothing had been paid at all. Many times where the employer fails to provide anything for the families of workers dying in his employ, the hat must be passed, the bur-

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[8] *Ibid.*, p. 1.

den falling upon those already weighted down with financial responsibility and on the thrifty. Group insurance, on the other hand, lays down a definite program understood by both employer and employee, and it transfers the latter's family, at his death, from the pay roll of the company to that of the insurance company. A definite sum or his salary for a definite time is then paid to the family as a contract obligation of the insurance company.

Since group life insurance is a wholesale form of insurance, certain economies are effected in placing the insurance coverage. For example, the entire group is placed at one time by the insurance underwriter handling the case. Thus instead of a thousand employees being individually solicited, only the employer is solicited. It is the practice of most life insurance companies issuing group contracts to grade the commissions of the solicitors down as the amount of insurance increases so that the selling cost is comparatively low. In free groups often the first knowledge the employees have of group insurance is when they receive the firm's announcement that insurance coverage on them has begun or will begin on a definite date and time, frequently on Christmas or New Year's Day or some other time appropriate in the firm's history.

There is a constant tendency on the part of the insuring companies to keep the cost of group insurance low since their competition is chiefly with the group policyholders themselves. Should the cost of the insurance become excessive many large industrial concerns would carry it in their own organization.

Thus insurance companies must keep the cost as low as possible.

There are a number of advantages to the employer in carrying the insurance of his employees in an insurance company instead of organizing his own insurance department:

1. Liability is at once transferred to the insurance company, and dissatisfaction, or questions on the subject that might otherwise arise between the employer and employee, is avoided.

2. Giving an employee a certificate issued by a well-known insurance company usually visualizes the fact that the employer has purchased a policy and is paying the premium, thus avoiding any suspicion that employees might have of the employer's motives, and making sure that his efforts are not undervalued.

Disadvantages of Group Insurance

Group insurance has a number of disadvantages:

1. It is issued upon the yearly renewable-term plan and ceases with the termination of the worker's employment. Group certificates contain a provision that they may be exchanged for policies upon permanent plans issued by the insuring company at the attained age without medical examination within thirty days of the termination of employment. Unfortunately, this is of little practical use to the individual workers. The monthly premium on group insurance is very low while insurance upon the regular plan at the worker's age is generally much higher and must be paid for quarterly, semiannually, or annually. Few workers can take advantage of the conversion privilege.

Thus the worker leaving the employ of a firm carrying group insurance and going to another which does not, loses the benefit of this insurance protection. Even if he goes to a firm which also carries group insurance on its employees, he must be there for some time before he comes under the insurance protection, since most firms usually have a probation period.

2. Being on the yearly renewable-term plan, group life insurance carries no surrender value of any kind.

3. Since group insurance is chiefly placed through the employer, its continuance is dependent upon the success of the business. Thus even though all the workers realize the benefit of such protection, they would lose it through a change in business policy. Yet even in the business depression of 1920-1921, it does not appear that many business concerns lapsed their group policies. There was some decrease, it is true, in the amount in force that year compared to the previous year, but it was very small.

4. The objection has been made that group insurance carried by the employer causes employees to drop their present insurance. This is not well grounded. While there may be a few workmen who drop their regular insurance when they receive group certificates, by far the larger number of persons take out additional new insurance. Many times employees first have the subject of life insurance presented to them adequately and on a practicable basis when they are given their group insurance certificates. The experience of a number of insurance companies has been that where many group certificates are placed in a community,

other forms of insurance placed in the same territory grow materially.

Flexibility

Group insurance is usually offered under one of two general plans: either a fixed amount, say $500 or $1,000 per worker, or one year's salary up to a certain amount. It has great flexibility in that insurance may be applied to a certain class of employees; for example, all the men, all the women, all the office employees, or all the mill employees of a given plant. It may be increased with length of service or increase in salary. Some employers increase the amount of group insurance per employee $100 for every year of service. This plan may be used to great advantage in having the increase occur upon the anniversary of employment, thus making it a fitting opportunity of emphasizing the years of faithful service that the employee has given.

Death Payments

Payments under group insurance claims are generally made monthly, although it is the practice of some employers, where the employee so desires, to permit the benefit to be drawn in a lump sum. This is particularly important where some urgent need of the family exists, as the payment of a mortgage. A funeral benefit of $100 or $250 is often added to the regular group insurance benefit so that payments for the first several months under the claim are not consumed in paying for the funeral of the deceased worker, but may be used by the family for living expenses.

Probation Period

In order to eliminate the expenditure of money on floaters, under most plans of group insurance, employees must serve a certain period before they are eligible for group protection, usually long enough to eliminate the casual worker. Some employers offer group insurance to employees who have been in their service thirty days; others require six months' service and some one, two, or even three years. Some employers start the plan by giving the insurance to all those who have been in their employ for over three years and then reduce the waiting period as the benefits of the insurance become better understood by workers.

Influence on Mortality and Industry

Group insurance actually measures the cost of death of workers for the employer. If the number of deaths is excessive under a group contract, it immediately shows in the refund given by the insuring company to the employer, who then can take steps to reduce the high mortality. The facts are thus at once brought to his attention, and, with the coöperation and assistance of the insuring company, he can often eliminate the cause of excess mortality. Thus not only is the insurance made cheaper for both employer and employee, but what is of greater social value, the premature death of breadwinners is prevented. In a large glass company, the group insurance showed that the number of deaths was excessive, resulting in a low refund. An investigation by the insurance company's expert disclosed the fact that the high mortality was

partly due to carbon-monoxide gas, and the cause being removed, the mortality figures of the company improved.

Frequently, until records of this sort are available, executives do not appreciate the mortality experienced in their plants. On one occasion, when the advantages of group insurance were presented to the head of a large banking institution, he remarked that few people ever died in his bank. An official observed that few of the deaths out of several hundred employed ever came to his attention. In less than two weeks the chief employee of the foreign department was killed in an automobile accident.

Group Disability Insurance

Group life insurance also usually carries a total disability privilege under which employees who become totally disabled are paid the full insurance. When issued in connection with group life insurance, it applies only to total and permanent disability. There is a form of group disability insurance, however, issued independently of group life, and covering temporary as well as permanent disability. Under it, employees are covered at a wholesale rate, and the insurance usually covers disability from whatever cause, whether by nature of the employment or outside working hours, as, for example, an accident or illness occurring at home.

Group Pension Insurance

The principle of group insurance has recently been extended to the pension field so that it is now possible

to provide pensions to retiring superannuated or disabled employees through a contract with a life insurance company at wholesale group rates. A recent study of industrial pensions revealed the fact that nearly 3,000,000 employees[9] are covered by formal pension plans of some form or other and that almost 36,000 retired employees are already drawing pensions from industry. Thus it is becoming increasingly recognized that the cost of superannuation of employees should be borne chiefly by industry and not by the individual. Recently a number of the great churches have been very active in advocating the retirement of aged ministers under pensions that would at least afford a living, and their efforts in this field are doing much to bring about group pension insurance for all workers.

The establishment of a pension plan by the industry itself is fraught with grave financial difficulties as time goes on, and many concerns have found themselves seriously embarrassed after years of operation of the plan. Most of the difficulties are of an actuarial nature. Hence any business contemplating the establishment of such a scheme should either avail itself of the services of a competent actuary and follow his recommendations or else contract with an insurance company to provide pensions for its retiring employees. The second method will probably be the one more generally adopted since insurance companies are better equipped to deal with the situation. At the same time the business is relieved of the responsibility

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[9] National Industrial Conference Board, "Industrial Pensions in the United States," p. 7.

and cost of conducting its own pension scheme and can confine its attention to its business affairs instead of adding to them the complication of undertaking the life insurance business.

Pension plans of life insurance companies may be combined with thrift or savings plans of employees and with group life insurance. In addition, certain disability provisions may be added which are very attractive to the employee. Under such plans, the employee is not only providing a pension for old age, but he is accumulating a fund which is always available for urgent needs should he not reach old age, or for his family at his death. Disability provisions continue the pension and insurance premiums should he become sick or disabled.

The cost of pensions may be paid exclusively by employers, jointly by employers and employees, or by employees alone, the second method being the most general and desirable not only since every one should be interested in his own future, but also because old-age incapacity is not exclusively a result of industry. In case of termination of employment under contributory plans, where the employer pays part of the cost of the pension, the employee has several options:

1. He may take a deferred pension for what the amount already paid will buy.
2. He may continue his deposits and his employer's until the age of retirement and then receive the originally planned pension.
3. He may take an immediate pension for a reduced amount, based upon the deposits he has made.

4. He may withdraw all his accumulated deposits in cash, with or without interest.

Pension plans also aim to reduce labor turnover and encourage permanence in the organization rather than to build up a fund which may defeat its very purpose by being an inducement to the employee to leave an employer in order to secure the accumulations that have been made by the employer as well as himself.

Social Effect of Group Insurance

Group insurance of employees is a manifestation of the employer's interest in his employees and their families. One of the strongest features of this insurance is that it enters the home and binds the employees' families to the employer. Many a worker's wife has been known to keep her husband on the job in order to prevent the loss of his life insurance. One employer has said that it even helped keep his employees sober, as they and especially their wives knew that drunkenness with consequent discharge meant the loss of their group life insurance.

In the early days of group life insurance, it was expected materially to reduce labor turnover, and some employers purchased the coverage with this end in view. However, all attempts to demonstrate that group insurance has done this have proved fruitless, since too many disturbing factors enter to make a definite correlation possible. It seems evident, however, that, where such plans have been installed, they have had a salutary effect upon reducing labor turnover. At least, they have eliminated some of the fears

of employees and in many cases have been conducive to more cordial industrial relations. Probably the insurance is of greater value when it is a genuine expression of the employer's interest in his employees and their families. Those experienced in presenting group life insurance to employers have found that it is seldom taken by employers who calculate whether its cost will be repaid in dollars and cents. It is the general custom of underwriters handling such coverage either to avoid such employers altogether or, when dealing with them, tell them frankly that it had better not be considered for such a purpose. American employees, particularly, are difficult to deceive in such a manner. Group insurance should never be placed at the expense of a deserved raise in wages, fair working conditions, sanitary and healthful surroundings, and other criteria of good management.

Group insurance, at best, generally pays for but one year's salary or wages, and, when this is pointed out to workmen, they are often confronted with the question of what will happen when the year is over. Hence group insurance helps point out the advantages of adequate insurance protection and it seems to stimulate workers to purchase more insurance. Where free group insurance is first placed in a plant, it is generally quite easy to induce 90 per cent or more of the employees so covered to take contributory group insurance also, for which they pay the major portion of the cost.

Investigation of the financial condition of families where death claims have occurred under group insurance certificates has shown that in 40 per cent of the

cases no other insurance is left to the dependents and generally little else.

The great social service that group insurance performs is best shown by the number of studies that have been made of death claims paid under group policies. One investigator states:

> The group claims of one insurance company were examined for the ten months ending October 31, 1923. During this period 2,264 claims were paid, averaging $1,258 in amount. In 996 of the cases, or about 44 per cent of all, the deceased employee left no other life insurance in force, not even a small industrial policy. These figures are fairly representative of the facts as found in other years and they apply to all grades of wage and salary service. Classifications of employees of banks, commercial houses, brokers and even of thrift savings and insurance institutions did not differ in great degree from the factory worker in the facts of the lack of insurance protection for the wage envelope.
>
> How group insurance reaches to the closest human relationships is evidenced by a further classification of these same 2,264 group claims, showing where the insurance money went. Here is the distribution: wife, 1,382; mother, 222; children, 252; sisters and brothers, 163; father, 38; husband, 17; estate, 101; parents, 7; friend, 40; trustee, 9; collateral heirs, 53.[10]

About 800 workers protected by group insurance now die each week and of these 40 per cent or 350 leave absolutely no other insurance. Graham finds that the average amount of other life insurance car-

[10] William J. Graham, "A Dozen Years of Group Insurance," pp. 8, 9.

ried is about $2,000. If it be assumed that each worker leaves two other persons who are affected by his death, then 2,400 people are weekly benefited by group insurance protection. About 33 per cent of all workers who die leave behind relatives of the intimate type, either parents, wife, or child; thus the loss of the pay envelope means desperate family conditions.

Another study of 1,000 group insurance death claims revealed the following:

346 left no estate in the form of quick assets
300 left less than $500 each
139 left from $500 to $1,000
127 left from $1,000 to $2,000
62 left from $1,000 to $5,000
26 left $5,000 and over [11]

The average amount of insurance received by these beneficiaries was about $1,020.

These studies demonstrate that even in America with its high wages and prosperous businesses the average employee lives up to his income and when he reaches life's end leaves comparatively little to his family, often not enough to pay his debts. Not the least social service of group insurance has been to furnish machinery to bring these facts to light and at the same time provide more funds to brighten the picture.

IV. Non-Medical Insurance

One of the prime requisites in the past for effecting life insurance coverage was that the applicant should

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[11] William B. Bailey, "Do Workers Need Group Life Insurance?" Travelers Insurance Company, p 8.

be able to pass satisfactorily a medical examination. Recently, however, insurance companies have found it practicable to issue life insurance on certain classes without medical examinations. While this may seem to invite a very undesirable business from the mortality standpoint of the company, there are more safeguards thrown around it than appear at first glance, and it is so written that it proves very satisfactory to the issuing companies, the mortality experience at issue being as favorable as for the policies issued where medical examination has been made. The following safeguards are provided for this class of business:

1. It is written chiefly or solely upon the company's own policyholders, who have been examined shortly before and with whom the company is to some extent familiar. The company, therefore, has the benefit of a former medical examination and a comparatively recent inspection. It is the practice of such companies in issuing such insurance to limit the amount in proportion to the recentness of the last examination. Thus, if the applicant has been examined within one year, a $5,000 policy may be issued without examination, within two years a $2,500 one, and within five years, perhaps a $1,000 policy.

2. More responsibility is placed upon the agent for the selection of proper risks and he is required to complete a much more extended report on the applicant than where the results of a medical examination are furnished.

3. The applicant himself makes a statement that his health has not changed since its previous exam-

ination and states a number of other facts on his physical condition which are much more simple than a medical examination.

4. Companies inspect such risks just as they would were the person physically examined, that is to say, a report is made to the insurance company by their local representative on the environment, general financial condition, occupational hazards, and habits of the applicant. Most companies also have access to the records of a central bureau which is used by almost all life insurance companies, in which the previous impairments of all applicants for life insurance throughout the country are recorded.

A recent writer on this subject has pointed out that there are ten factors to be considered in determining the insurability of an applicant.[12] Without regard to their order of importance, they are:

1. Age
2. Build
3. Occupation
4. Habitat or residence
5. Amount and plan of insurance
6. Habits
7. Moral hazard or insurable interest
8. Personal history
9. Family history
10. Physical condition

Under non-medical insurance, where the applicant is an old policyholder, nine of the factors are already known to the company from a former examination and

[12] Harold F Larkin, "Non-Medical Life Insurance," *The Annals*, March, 1927, p 65.

the tenth is supplied in part by the statements of the applicant and the soliciting agent.

Companies reserve the right to require a medical examination of the applicant before granting the insurance, if his statements, the soliciting agent's, or the inspector's seem to warrant it.

So far, these safeguards have proved sufficient for the companies issuing such insurance and at the same time material savings have been made, not only in cost to insuring companies, but in time to applicants. At the same time, such insurance removes the objection sometimes raised by applicants as to the time required for the examination. To others a medical examination is often embarrassing and annoying, and the fact that this can be dispensed with is an attraction to take more insurance. It is also an inducement for a person to increase his insurance in the company with which he is acquainted.

v. Salary Savings Insurance

The salary savings or salary deduction plan of insurance is one that possesses many of the attractive features of group insurance and in addition has some desirable features that group insurance does not have. It is a plan whereby a group of ten or more persons, employed by the same employer, may procure life insurance upon any regular form, except term, and up to certain limits and with certain restrictions, without medical examination. The premiums are payable monthly by the employer for the entire group and he, in turn, deducts each man's monthly premium from

his pay roll; hence the name salary deduction or salary savings plan.

It differs in a number of essentials from group insurance:

1. It may be issued upon any plan except term, while group insurance is almost exclusively on the yearly renewable-term plan.

2. Many kinds of policies may be issued on a salary savings group of lives, such as straight life policies, limited-payment life policies, endowments, annuities, and so on. For example, one man may choose a one thousand dollar policy on the ordinary life plan; a second a policy of two thousand dollars on the endowment plan; a third, a policy for fifteen hundred dollars on the twenty-payment life plan; a fourth an endowment at age sixty-five; a fifth, a survivorship annuity. All these different kinds of policies count as units of a group. Under group insurance, on the other hand, every individual holds the same kind of contract.

Under salary savings, a policy taken by the employee can be carried without change of plan if the employee leaves his present employment. In that event, the method of premium payment must be changed from monthly to quarterly, semiannual, or annual. Thus the only thing that he loses is the convenience of paying the premiums monthly and having them deducted from his pay. Under group insurance, the group certificates must be exchanged for insurance on a permanent form, as ordinary life, twenty-payment life, or any other form but term. Thus not only does the plan of insurance change, but

the premium suddenly becomes materially higher than it was under the group plan.

3. Under salary savings, the individual applicants select both the kind and amount of insurance they desire; under group insurance, there is no voluntary selection either as to kind or amount of insurance.

4. Employees are individually solicited by insurance agents for salary savings insurance after their employer has approved the idea; group insurance, on the other hand, is sold in "bulk" as a single contract between the employer and the insuring company.

5. Under the salary saving plan, each person takes out an individual policy issued at his present age and pays the premium for such a policy at that age; the rate or premium for group insurance is calculated upon the average age of the entire group of lives covered. Under salary savings insurance, each employee keeps his individual policy, while under the group plan, the actual policy issued by the insurance company is given to the employer, each employee receiving a certificate of insurance under the master policy.

Safeguards against Adverse Selection

Most of the safeguards thrown around ordinary non-medical insurance on individual lives are also present in salary savings units. While there has often been no earlier medical examination made by the insuring company on the lives of most workers insured under salary savings groups, the fact that there are at least ten persons healthy enough to be employed affords some protection to the insuring company. In addition, the employer and the other em-

ployees are also somewhat familiar with the insurable condition of every employee; thus the chance of imposing obviously poor risks upon the company is greatly lessened. Finally, the inspection of the applicant and the statements of both the applicant and the soliciting agent furnish sufficient data in the vast majority of cases to warrant issue of the policy without medical examination. Where the forms indicate that a given applicant has recently been dangerously ill or has some chronic disease, insuring companies reserve the right to require a medical examination.

Advantages of Salary Savings Insurance

Salary savings insurance possesses a number of advantages over the ordinary method of placing such protection upon individual wage- and salary-earners.

1. *From the Standpoint of the Worker.*—Such insurance is usually on the non-medical plan; thus some workers get insurance who would hesitate to submit to a medical examination. This does not necessarily imply that substandard risks are accepted by insuring companies, since they still require applicants to fill out the same records and forms of applications as individual applicants for insurance without medical examination. The main advantage is that under salary savings units many workers receive ordinary insurance on a plan which enables them to pay for it monthly, when, otherwise, they might be confined to industrial insurance protection only. Under the usual practice of issuing non-medical insurance in most American companies, only old policyholders are ac-

cepted for non-medical protection, but under the salary savings plan, new applicants are accepted.

In addition, the easy method of paying for insurance monthly enables many workers to carry more protection than they otherwise could.

2. *From the Standpoint of the Employer.*—It enables him to encourage thrift among his employees and also eliminates the possibility of having to extend charity later to indigent employees or their families. He can contribute to such plans and thereby provide both insurance protection and pensions for his workers so that they will be taken care of when they reach the retirement age. At the same time, it encourages workers to help themselves by systematically providing for their future.

The plan lends itself to coöperation between employer and employee since they both may contribute to the plan.

(*a*) The employer might contribute the same amount towards each individual premium as he would pay for group insurance. This would be more beneficial to both employer and employee, since the insurance would be on a more permanent form with constantly increasing reserves.

(*b*) He might pay the equivalent of an ordinary life policy on the life of the employee, the latter paying any additional premium due should he choose a higher-priced policy.

(*c*) He might pay the first premium on an entire unit in order to encourage his employees to start the plan.

(*d*) He might pay a premium at Christmas or New

Year's or at the wedding of an employee or on the anniversary of an employee's service.

(*e*) He might set up a system of merit or service rewards, paying a certain proportion of the premium on an employee's policy each year and increasing it with the number of years of service.

(*f*) The policy might be paid at the retirement or termination of service of a faithful employee. Such gifts are just as real and are more far-reaching than those of cash.

3. *From the Standpoint of the Insuring Company.* —The cost of acquisition is low since the insurance is issued on the non-medical basis. Likewise, the expense of premium collection is low since the employer pays but one monthly premium for the entire group of policies.

Monthly Premium Payment

A large proportion of those who buy insurance on plans other than industrial receive their salary or wages either monthly or biweekly. Millions are accustomed to paying bills monthly, as telephone, light, heat, groceries, and merchandise. It is easier for many people to pay for their life insurance when they are paid themselves even if it costs a trifle more than to pay it annually. This is notably shown in the case of war risk insurance, for over 90 per cent of the men in service gave the government an order to deduct from their small monthly pay checks not only their government insurance premiums, but also their family allowances and the amounts set aside to purchase Liberty bonds.

It is a sound practice of thrift to save first and spend afterwards, and the employee getting $100 a month somehow feels it easier to have $5 deducted from his monthly pay for life insurance and receive a check for $95 than to receive a check for $100, save five each month from it, and then pay a comparatively large life insurance premium once, twice, or four times a year.

Encourages Larger Amounts of Insurance

Much of the insurance issued on this plan is for odd amounts of insurance paid for by even amounts of premium rather than even amounts of insurance issued for odd amounts of premium. Curiously enough, when an even amount of premium is paid, the insurance is generally larger than where an even amount of insurance is selected. It seems to appeal to the average employee to have five dollars deducted from his monthly pay to purchase an odd amount of insurance, say $2,754. If the same employee were selecting a face amount of life insurance policy, he would, in all probability, select $2,000. Most people think in terms of round amounts rather than odd sums. A charge of $1.05 for a theater ticket instead of $1.00 would exclude many patrons, and some people will buy an article that costs $4.98 rather than break into a $10 bill to buy an article costing $5.05. People buy round amounts of other things, as 5, 10, 50, or 100 shares of stock; not 4, 11, or 98.

Influence of Mass Psychology

Success in placing insurance on the salary savings plan depends largely upon mass psychology. The fact

that ten or twenty leading employees in a concern of fifty who know each other decide that the proposed insurance is a good thing and take it, often in a particular company, frequently induces others to join them and adopt this method of thrift and providence. Thus many persons, through emulation, are started on a program of insurance protection who might not have undertaken it in any other way.

Although the plan is a comparatively new development in the life insurance field, the amount so written is already large and is growing very rapidly. The latest figures available at the time this book goes to press are that forty-one insurance companies write insurance on this plan.

VI. Business Insurance

Business life insurance may be defined as that form designed to protect a man's business rather than directly to benefit his family. In many instances, however, it obviously does benefit the family, since equities in most businesses are passed on to the owner's heirs at death. Consequently, any financial device which directly protects the business, indirectly aids the family. On the other hand, life insurance payable to individual members of the family likewise protects the business. This is particularly so in the case of partnerships. The partner who leaves his widow well provided with ready money, to a certain extent, assures the continuance of his business without embarrassing demands for funds being made upon his surviving partner by his widow. Where little is left, it fre-

quently happens that she must force settlement of the business, often at an inopportune time. Even where the business is not immediately liquidated, cash payments to a widow frequently rob the concern of much needed working capital.

Social Aspects of Business Life Insurance

From the standpoint of the individual business man, business life insurance is important because it guarantees the continuation of the business after his decease; where insurance is taken on the lives of key men, a corporation is assured their financial worth to the concern even after they are gone. However, were the beneficial effects of business life insurance to cease here, there would be little place for its discussion in a book treating of the social aspects of insurance. Business life insurance is just as important to the masses of the population as it is to individuals and corporations. Our present economic structure is so complex that a financial catastrophe cannot befall any given business or community without sending its reverberations through our entire social and economic structure. For instance, when a firm fails, there is loss not only to its owners, employees, and creditors, but to its affiliated businesses as well. These, in turn, also have employees, creditors, and stockholders who may lose. Wage-earners are directly affected by being thrown out of work, perhaps for months, during which time their savings are heavily drawn upon and sometimes wiped out altogether. Where failures occur in a community devoted to a highly specialized production of a few commodities, workers may even have to migrate

to other parts of the country to secure work. When the wage-earner's income is cut off or materially lowered, the standard of living of his family must be lowered, his future may be rendered uncertain, and his children are often forced to work and so forego an adequate education which would otherwise be possible.

Finally, the entire community is affected by the wastes of failure. Idle plant, equipment, and workers mean social loss to the entire community. The wealth of a nation depends upon the continued production of goods and services, and when this is stopped and a large group of people consume without producing anything, national wealth decreases.

The Main Function of Business Insurance

The main function of business life insurance is to capitalize the life value of key men in business organizations. The success of any enterprise depends largely upon human ingenuity, ability, and effort; and when a valuable leader dies or retires, the business frequently disintegrates or fails. In the vast majority of cases, the greatest asset a firm has is its leader or group of executives. This has been exemplified not only by great corporations built up largely through the genius of one man, as the Standard Oil Company, the John Wanamaker Stores, and the Ford Motor Company, but by the scores of thousands of small businesses scattered throughout the country which are fundamentally one-man enterprises. When the head of such a concern dies or retires, the end of the business follows shortly after. It is the function of business insurance to provide a cash fund to be paid the

business in the event of either one of these events. When the business depends upon the ability, capacity, character, force, and ingenuity of an individual, the value of his life to the business should be capitalized at as near its true worth as possible through life insurance in favor of the enterprise.

Value of the Personal Element in Business

Emerson has said that great institutions are but the lengthened shadows of great men and nowhere is this truer than in the field of business enterprise. This is shown in a number of striking ways:—First, in regard to business credit, probably over 90 per cent of the business done in this country is transacted on a credit basis, most of which is based upon the character, capacity, and capital of borrowers.[13] Thus credit rests chiefly upon the personal character of individuals and their ability to produce goods or services and thereby make profits. Few creditors lend with the idea of foreclosing their loans on the collateral of borrowers, but they expect to be paid normally from the gains of commerce, trade, and industry. Thus the repayment of credit depends primarily upon the life and working ability of responsible individuals.

Secondly, business acumen is very rare and where it exists there is little question of the success of the enterprise. A large number of businesses are doomed to failure from their very beginning, either because of lack of business acumen on the part of their organizers or because there is little or no economic justification

[13] Edmond Earle Lincoln, *Applied Business Finance*, pp. 382, 383.

for their existence.[14] Many concerns fail or pass out of existence soon after starting; others worry along for years and then pass out of the scene, yielding no returns to owners in the meantime and ultimately resulting in a total loss. Others reorganize and perhaps finally get going on a sound basis. A very few start successfully and continue in business for a long period of years. The Bureau of Business Standards in a study of 4,619 concerns came to the conclusion that approximately eight out of every ten concerns starting in business die within thirty years.[15] It thus seems that the lives of most business enterprises are approximately as long as the lives of the men who found and develop them. In a very few instances the skill, initiative, and managerial ability of a business leader are passed on to able associates and subordinates who can successfully carry on the enterprise when he has passed on or retired. These, however, are outstanding exceptions, the vast majority of enterprises starting, developing, and failing or retiring in a comparatively few years.

Business Failures

One needs only to select the statistics of business failures for any year at random to be impressed by their number and the types of establishment involved. For instance, in the prosperous year 1925 there were 21,214 business failures whose liabilities exceeded assets by $195,677,000.[16] In addition, there were 464

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[14] *Ibid*, pp. 45-60.
[15] A. W. Shaw Co., "The Causes of Business Failure," p. 2.
[16] *Statistical Abstract of the United States*, 1925, p 307.

bank suspensions with liabilities of $164,639,000.[17] According to the statistics compiled by one of the two leading mercantile agencies of the country, approximately 1 per cent of the firms in business each year fail. However, this includes only those failures known to this concern. One authority estimates that known or recorded failures constitute only one-sixth or one-seventh of the probable total number of failures accruing in any year. Thousands of firms fail or pass out of existence each year without the public at large ever knowing of the loss. Countless small tradesmen invest a given capital in a business, eke out a poor existence for a few years, slowly spending their capital, and then retire from business when their capital is finally gone. Ofttimes they pay their creditors in full and so have not failed in the technical sense of the word, but they have failed in fact and have lost their savings in addition.

Causes of Business Failure

Nearly every writer on business finance sets forth a different grouping of the causes of business failure, but they practically all agree to-day that the causes are of two kinds, psychological and economic. One authority holds that practically every business failure can be traced to ineffective management,[18] the "causes" advanced often being only outward manifestations of a deeper-rooted evil. Bradstreet's has listed these superficial causes of business failure as follows:

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[17] *Ibid.*, p. 308.
[18] Lincoln. *op. cit.*, p. 732.

A. Those due to faults of those failing
1. Incompetence
2. Inexperience
3. Lack of capital
4. Unwise credits
5. Speculation
6. Neglect of business
7. Personal extravagance
8. Fraudulent disposition of property

B. Those not due to faults of those failing
1. Specific conditions (disaster, war, floods, etc.)
2. Failures of others (apparently solvent debtors)
3. Competition[19]

Premature Death and Business Failure

Thus it becomes obvious that the personal element is the most valuable asset of the business. While there are no figures available showing the number of firms that fail or retire from business because of the death of business managers or owners, it seems evident that such an event often means the end of the business, although the cause of failure may appear to be lack of capital, incompetence, or some other superficial or immediate cause. A concern one day might be in a very sound financial position because of the ability and standing of its executives or owners, yet their death would change the whole complexion of the enterprise. The item of good will, frequently the greatest asset on a firm's books, is fundamentally based upon the ability of one or several prominent men in the business. If their lives are suddenly snuffed out,

[19] The Bradstreet Company, "Failure Statistics: Their Meaning and Utility," 1922, p. 4.

the good will disappears in like manner, frequently curtailing the firm's credit and causing existing loans to be called. The survivors are often unable to continue the business under such handicaps and the firm either fails or retires.

A Sinking Fund for Human Assets

Business life insurance is a sinking fund that can be set up to retire the human assets of any business. Every business man has a certain period of working life whether it be ten, twenty, or thirty years, or longer. Sometime, as far as the business is concerned, he will have to retire or die and either of these events may seriously embarrass the enterprise. Business life insurance, in favor of the firm and paid for from its earnings, provides a capital amount to take the place of that lost by the leader's retirement or death. In all good concerns, depreciation and obsolescence are charged off on buildings and plants. It seems just as reasonable and scientific to charge off the premiums on business insurance which replaces, at least to some degree, the economic value of its leaders.

Specific Uses of Business Insurance

Business insurance is adapted to a wide variety of uses in covering the human assets of any business enterprise. Some of the purposes to which it is adapted are as follows:

1. *To Protect Business Credit.*—Where the credit of the firm is dependent upon the ability or personality of one or several members, life insurance may be placed upon the lives of these men to guarantee a loan

to creditors in case of their premature death. It is interesting in this connection that Sir Walter Scott, over a century ago, took out life insurance to protect his creditors.

The credit of any business is instantly affected by the death of one of its leading members. Commercial agencies at once notify interested creditors of the death of an important member of an organization, and it is natural for any creditor to consider the effect of the death upon the concern's credit. For this reason, further credit of the firm is frequently curtailed at a time when most needed. Where life insurance is carried, the claim not only provides immediate cash to the business, but also reassures the creditors and so forestalls dangerous demands upon the business for the payment of notes and loans.

2. *To Protect Partnerships.*—Under the laws of most states, the death of a partner terminates a partnership, and, even where the business is continued after his death, the entire burden falls upon the surviving partner. In addition to difficulties in settling with the estate of the deceased member, friction often arises between the interests of the widow and those of the surviving partner.

Business life insurance may be carried on the life of each partner, and when the first dies, the proceeds of his life insurance are used by the survivor to purchase the share of the deceased. Thus the estate of the deceased receives his business interest in cash and the business is relieved of the necessity of being terminated and going through the process of liquidation. This plan is particularly useful where there are three

or four partners and where the death of any one might necessitate the liquidation of a new, prosperous business, to the detriment of the three survivors.

There are frequently silent partners who are the financial backers of the concerns in which they are interested, and such firms are robbed of their advice or endorsement at the time that credit is affected by their death.

3. *To Protect Bond Issues.*—Frequently a corporation can borrow through the medium of bonds, if the continued services of important executives are assured to prospective bond purchasers. Life insurance is often placed upon the lives of such executives, guaranteeing a fund which will retire the bonds in case of the premature death of the important executives. Through endowment insurance, the bonds can be retired at the maturity of the endowment; if the assured dies in the early stage of the venture, the insurance automatically retires the bonds at once.

4. *To Cover Mortgages.*—Life insurance may be placed upon important stockholders, officers, or directors of a corporation in order that large shares of holdings may be brought back into the corporation at their death. Stockholders, while alive, are interested in seeing their business prosper, but their survivors are interested only in drawing all they can from the business. It is, therefore, to the advantage of both the heirs and the business that such concerns be kept out of the hands of widows, children, or decedents' estates who give nothing to the concern and who are interested in withdrawing maximum amounts from it.

5. *To Provide a Sinking Fund for Retiring a Member of an Organization.*—Funds are often provided through endowment policies on the life of important members of the firm and used to retire these members some time in the future. This is somewhat similiar to setting aside a depreciation and reserve fund on buildings and machinery. Annual savings are set aside each year the member continues at work and when the age of retirement arrives, the retirement fund is automatically accumulated. In the meantime, should the insured die, the endowment matures in full immediately and may be paid to the business or to the insured's heirs.

6. *To Provide Good Collateral.*—Business insurance on the lives of members of a concern furnishes excellent collateral, particularly for a new concern which has not been able to establish extensive credit relations. Such insurance serves as a guaranty for loans based upon the character and business ability of the borrowers. Such policies may be assigned on long-time loans or merely pledged for temporary short loans, as the case may be.

7. *To Provide Liquid Capital in Times of Financial Stress.*—The cash value of such policies often serves as a bulwark in financial crises, such as panics, or in a tight money market when interest rates are high. The cash value is certain and known to the business at all times and it may be secured from the insuring company when other loans might be impossible, particularly if the credit of the business is none too good.

8. *To Provide for Business Expansion.*—Most business enterprises are started with high hopes and un-

bounded enthusiasm. For years the chief executives may develop their scope, usefulness, and prosperity. However, expansion indefinitely in the future depends upon interesting junior executives and younger employees in the enterprise. Often some incentive, such as a profit-sharing plan, promotion to managership of a district office, or some other tangible reward, must be held out to attract new talent and hold it. Business insurance is an excellent avenue through which this may be done. The money value of insured executives is thereby made certain to concerns and they may then often launch programs of reasonable expansion with comparative safety.

9. *To Provide a Fund for Death Benefits or Pensions.*—Many concerns have prospered because of the long service of faithful and efficient employees who have labored with the manager of an enterprise since its beginning. Such an executive knows that, as long as he lives, he can see that these deserving persons are cared for. Through business insurance on his own life, he can establish a fund that will make their financial future certain even after he is gone.

There are many other specific business needs that can be covered by business insurance, but these serve to indicate its usefulness and applicability to capitalizing the human assets in business. Through business insurance, business executives can buy a certain and definite sum of money at a very reasonable rate of interest, for future delivery and when most needed. It may be considered a shock-absorber in business, to provide against the financial shock caused by the death or retirement of a valuable executive or employee.

Business insurance should not be used to keep incompetent concerns in business nor to prolong the life of those that have served their purpose and are now existing but returning no profit to their owners, offering no promise of steady employment to their employees, nor serving the public efficiently. It should rather be used to continue the stable, legitimate enterprise in business, to assure its future growth and service, unhaunted by the specter of possible failure brought about through the death, disability, or retirement of its guiding genius. Business insurance performs its greatest social contribution when it stabilizes sound economic conditions and eliminates useless hazard and waste from business life.

VII. The Insured Savings Plan

The insurance principle has been combined with deposits in savings banks in a number of attractive ways for those building an estate by systematic thrift. The savings objective is made certain from the time the depositor starts the plan. Assume that the objective is $1,000 to be saved in ten years: the depositor makes a small monthly deposit which creates a savings fund and pays a small insurance premium. If he dies after the first deposit has been made, his family receives $1,000, the insurance amounting to the difference between the amount of his first deposit and $1,000. On the other hand, if he lives throughout the period, he collects in cash the $1,000 which has been accumulated in the bank by his small monthly deposits with interest.

These plans are important for a number of reasons:

1. They are simple and can easily be understood by depositors. They know what they are getting.
2. The endorsement of life insurance by a responsible bank means much to those skeptical of life insurance and its sometimes bewildering complexities.
3. Depositors as a rule call at the bank and leave their deposits, thus forming and fixing the habit of systematic thrift.
4. Depositors can create estates, which are definitely known at all times.
5. Depositors become acquainted with the facilities a bank offers and are doubtlessly in many cases started on a more intensive program of thrift embracing plans to own a home, invest in sound securities, and create an estate. At the same time, they become better acquainted with what life insurance is and does.

VIII. Assessment and Fraternal Insurance

Both assessment and fraternal insurance have played an important part in the history of life insurance in this country, not alone by providing protection to many millions of members, but also in educating the public to the need for life insurance. At the same time, they have placed life insurance within the reach of many millions of breadwinners who otherwise would have had no opportunity of making insurance provision for their families.

Assessment and fraternal insurance are similar in many respects, but they also differ in a number of points. Assessment insurance originated from the crude method of providing a fund for the widow and

children of a deceased individual by passing the hat among his friends and associates and levying an assessment upon them. It developed from the friendly societies of England and from fraternal orders in this country who gave assistance to widows, orphans, and destitute families of deceased members. Assessment organizations had no affiliation with fraternal orders but were formed as voluntary associations of individuals, later developing into incorporated assessment companies. These flourished several decades ago until the fallacies upon which the system was based resulted in almost prohibitive assessments upon their members. This kept new members from joining and thus forced up the rates of those who remained to such levels that the need for a more scientific system became apparent.

One fallacy lay in the assumption that death occurred with equal frequency at all ages. Assessments in many organizations were levied on this assumption and no scientific provision was made to set aside any reserve for the later assessments which naturally increased. If no such reserve was created, increasing costs either fell upon the older members and ultimately became prohibitive or were divided among both the older and younger members. This often caused the latter to drop out or else prevented new ones from coming in. There was a constant effort made by assessment organizations to secure large numbers of new young members, since only thus could costs be kept down. In the fraternal societies using the assessment system, fraternal orders were conferred on the members and other associate benefits were used

as additional inducements to encourage people to join the order. In some assessment companies, assessments were graded according to the present age of the members, notwithstanding the fact that death occurs according to attained age and not at the age of entrance. In still other organizations, instead of a fixed, regular premium being charged and mathematically calculated sufficient to pay all claims, members were assessed when death occurred in the group. In some associations, assessments were levied periodically and so provided for the deaths certain to occur later.

Assessment insurance is usually on the yearly renewable-term plan, since most assessment companies do not issue certificates containing the savings features of commercial life insurance contracts, such as endowments, annuities, or limited-payment life policies. The members of any new assessment association averaged a comparatively young age and therefore experienced but few deaths, the result being a very low cost of insurance. However, as the association grew and became older, the average age of its members steadily increased and more deaths occurred, the result being that an organization of old members finally became too expensive to attract younger ones. The association, left with only old members, often in an unhealthy condition, experienced ever increasing costs which finally became prohibitive, often resulting, in the past, in the entire collapse of the organization. As the weaknesses of the system have demonstrated, some of the stronger and better managed assessment companies, often large organizations having hundreds of thousands of members, have attempted to remedy

defects by changing to a stipulated premium basis. Some even have endeavored to become old line companies by setting up regular reserves to provide for the increase of future premiums. A few companies have succeeded in making the change and are to-day established old line companies making proper provision to carry out their contracts upon a scientific basis, understanding the handicaps under which such a system starts.

In spite of its many vicissitudes, assessment insurance still holds its own even in an age enlightened on sound insurance principles. At the end of 1926 there were 455,351 assessment certificates in force for $391,583,724 of insurance protection.[20]

Fraternal insurance is practically assessment insurance issued by a fraternal order with a lodge system, offering certain other benefits than life insurance, such as sick benefits, lodge meetings, fraternal gatherings, and so forth. Fraternal benefit societies attempt to provide mutual insurance for their members, sick benefits, and social features which tend to bind the members closer together. The affairs of the lodge or society are conducted under a representative form of government or management, often with ritualistic ceremonies. Frequently the sick benefits are of more importance than the death.

Up until the last decade, fraternal insurance constituted an important percentage of the total life insurance in force, but with the better education of the public to more scientific forms of insurance coverage, it has declined relatively in proportion. In the last

[20] "The Consolidated Chart," 1927, p. 95

several years it has just about held its own, remaining at approximately ten billion dollars. The amount in force on December 31, 1926, was $10,407,938,011 covering 9,470,301 members.[21]

Both assessment associations and fraternal orders as a whole have performed a vast amount of social good through the money disbursed to the beneficiaries of their certificate holders, for it has brought the advantages of insurance to the attention of millions of persons who have later secured permanent policies in safe, strong companies. Thus protection has been furnished to certificate holders at comparatively low cost through the voluntary services of members of local lodges. Both through their low cost and convenient method of paying assessments at local lodge meetings, in thousands of cities and towns throughout the country, they have constituted the preliminary stage of the insurance programs of countless individuals.

IX. United States War Risk Insurance

Soon after entering the late War, the United States Government, recognizing the vast economic value of its service men to their families, organized the War Risk Insurance Bureau to carry life insurance upon them. The insurance was carried individually and paid for out of deductions from the pay checks of the men. At the height of its operations, the Bureau had $40,000,000,000 in force; but at the close of the War, the amount of insurance in force declined very rapidly

[21] *Ibid.*

until at the present time there is a little over $3,000,000,000 in force, only half of which is on permanent plans of insurance.

This insurance has been of very great social importance, not only because of the sums it has paid in death claims to the families and dependents of service men, but also because of its educational effects. It represented the Government's great need for insurance protection. At the height of its activities, the War Risk Insurance Bureau had the greatest amount of insurance on its books ever carried by any organization in the world, and in that same year had as much in force as all the legal reserve life insurance companies, fraternal societies, and assessment associations put together.

It is one of the most unfortunate things of our day that so much of this insurance has been lapsed by ex-service men, since it could be carried at very low cost, made possible by governmental appropriations from time to time. Probably much of it would have remained in force if policyholders had been better served, particularly by personal effort. Practically all official business since the War has been carried on through the mails, which is a very difficult way of maintaining the interest of policyholders in their insurance programs. To the credit of private insurance organizations be it said that their representatives have given much time and effort to urging policyholders to keep their government insurance in force, when such advice has often been against the purely selfish interests of private insurance solicitors. The numerous delays incidental to handling the vast and detailed

operations by the Bureau, too, have doubtlessly been responsible for much of the lapsed insurance.

x. Old-Age Pensions

Many life insurance contracts are designed to furnish a pension for the insured should he reach the retirement age set forth in the contract. During the early years of the policy, it is insurance, providing a capital sum or an income over a period of years for beneficiaries in case of the insured's death. If this does not occur within a stated period, the policy becomes an annuity for the insured. Thus he who has provided for the welfare of others during his earning years is rewarded by being taken care of financially in his own old age.

Various new forms of pension insurance for both individuals and groups of individuals are being devised by life insurance companies, so that the needs of old age are being provided for as scientifically as the needs of the family during middle life.[22] The pension movement represents the next great advance in the social service offered by life companies.

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[22] See above, Chapter IV, p. 90.

CHAPTER VI

LIFE INSURANCE AS AN AID TO EDUCATION AND PHILANTHROPY

Society to-day attempts to solve social problems which in earlier days were either totally ignored or considered solely the problems of individuals. Power, wealth, and education were for the favored few; while health and sanitation, as they are known to-day, were unknown even to the higher classes. However, as civilization progresses, society becomes more self-conscious, and ways and means are devised not only for effecting a more equitable distribution of the wealth and material comforts of a nation, but also for making health, contentment, happiness, and culture the common property of all. These purposes are achieved in two distinct ways: through education and through philanthropy.

Through education, man is enabled to help himself; through philanthropy, he is enabled to help others who are not so fortunate. Education is a slow process and the ultimate solution of most problems; philanthropy, for the most part, provides more immediate relief for the unfortunate, but, at the same time, undertakes to provide for the same problems in the future. Both education and philanthropy have their tasks to perform and both are materially aided by the institution of life insurance.

I. Education

The Importance of Education

Several thousand years ago a Greek philosopher said that the foundation of the State is the education of its youth. Whether the criterion of a nation's success be size of population, wealth, power, or culture, its foundation rests upon highly developed education in those fields in which it excels. Man's conquest of nature has been brought about through long years of experience passed on from generation to generation; and, as means have developed for conveying knowledge to others, civilization has advanced with proportionate strides. In a highly mechanical age, as to-day, material civilization reaches a very high stage and unlimited wealth flows from almost every enterprise. Those who succeed under the complex living conditions of to-day are those who are either naturally adapted to it or else trained for it through formal education. Wealth and power often come easily through the former, but culture and ethics only through the latter. Thus education brings culture and ethics to the wealthy and powerful, and knowledge of how to gain a decent living to the poor and unfortunate. The general well-being of any nation in the long run, however, depends upon a high educational standard for the great mass of its population.

The Cost of Elementary Education

Public education is a relatively costly proposition, hence the degree to which a State can educate its citi-

zens depends in large measure upon its wealth and income. At the same time, the degree of education of its citizens largely determines what its income will be; hence it is a good investment to establish an adequate educational system as early as possible and constantly to keep improving it to meet changing conditions.

The various states early established free elementary education and, later, secondary education for their citizens, many making the attendance of children compulsory up to a minimum age. In 1924, total expenditures by all the states for elementary education [1] aggregated $1,820,744,000,[2] ranging from a per capita expenditure of $5.15 for the lowest state to $31.75 [3] for the highest.

In spite of educational facilities offered in the various states, however, there are many people who cannot take advantage of them because of poverty. In a few wealthy cities and states, some beginning has been made not only to provide free educational facilities for every child, but also to furnish a living to those whose families are too poor to send them to school. However, the proportion of children so benefited is infinitesimal when compared to the number who need such aid.

School Mortality

Although eight grades of the public school and four years of high school are free to the public, less than

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[1] Public elementary and secondary schools

[2] *Statistical Abstract of the United States*, 1925, p 101

[3] Civic Development Department, Chamber of Commerce of the United States, "Educating the Coming Generations," p xv.

a third of the children who start in the first grade ever finish the eighth and only about a tenth of them finish high school.[4] One study accounts for the withdrawals as follows:

> There is a great loss of time due to a poor start in the first grade, the first 37 per cent of retardation being due to this cause alone. This can be traced to lack of knowledge of the English language, including lack of a sufficient vocabulary among even the English-speaking pupils. In part it is traceable to the inevitable difficulty of young children finding themselves for the first year in strange surroundings and in part to the much poorer attendance of young children and their entering late in the year. In large part, however, it is traceable to poor teaching conditions, both overcrowded classes and ineffective teachers.
>
> Some of these difficulties are capable of reduction by properly planned kindergartens, some are also quite effectively capable of reduction by decidedly more and better teaching in the first grade with more attention to the individuals.
>
> It is quite significant that having passed the first grade there is a slower rate of retardation for the next three years. This would seem to indicate that having once properly started in school, children went on more normally for at least three years with almost no appreciable increase in the rate of the slowing-up process.
>
> By the time the fifth grade is reached, however, pupils are beginning to encounter the real causes of serious retardation; that is, actual lack of mental ability, lack of interest in school work and the absence of a holding motive in the school, lack of family traditions that support and in-

[4] *Ibid.*, pp. ii and iii.

spire and lengthen school attendance and, in a very minor degree, lack of economic support.[5]

Why Children Leave School

The above observations are important in pointing out the varied nature of the causes of heavy withdrawals from school before completion of courses, but unfortunately tell little of the relative importance of such reasons. There seems to be no extensive material on this subject, but the following fragmentary studies give some background of the problem:

1. *Reasons for Withdrawal of Employed Boys.*—In a study of 186,080 employed boys in New York State in 1918, their causes for leaving school were grouped according to the size of the community in which they lived. These are shown in Table IV.[6]

TABLE IV

REASONS FOR SIXTEEN, SEVENTEEN, AND EIGHTEEN-YEAR-OLD EMPLOYED BOYS LEAVING SCHOOL IN NEW YORK STATE

Groups	Wanted to Work	Financial	Graduated	Disliked School	Miscellaneous	Sick	Total Per Cent
Greater New York	51.0	10.8	30.8	3.3	3.2	9	100.0
Cities over 25,000	64.8	13.0	8.4	10.8	1.3	1.7	100.0
Cities under 25,000	62.4	17.5	2.5	14.6	.7	2.3	100.0
Villages over 5,000	68.8	13.4	2.8	11.6	1.1	2.3	100.0
Places under 5,000	72.1	10.1	4.1	10.7	.5	2.4	100.0
Employed farm boys	68.7	18.7	2.9	5.9	4	3.4	100.0

The cause of most interest in the present instance is

[5] *Ibid.*

[6] Howard G. Burdge, *Our Boys*, p. 117, Table 9.

"Financial," regarding which the author cautions one against making unwarranted conclusions, as follows:

> Under the reason "Financial" were included every answer which by any stretch of the imagination could be construed as showing that the boy has been compelled to leave school to earn money either to help support himself or others. It is altogether likely that the percentages under this heading are too high and that many of these answers should really have been classified under "Wanted to work." Under this heading is included such answers as "Had to work," "Had to earn money," "To help support," "To get clothes," "To work on the farm," etc. It should be noted that in New York City where family expenses are higher than in smaller communities only eleven per cent of the boys gave financial reasons for leaving school as compared with as high as seventeen per cent in cities under 25,000.[7]

The author's conclusion, after study of the data, was that the vast majority of boys left school because they wanted to go to work and not because they were obliged to, less than 15 per cent reporting withdrawals for the latter cause.

2. *Reasons for Withdrawal among Poor and Dependent Classes.*—In analyzing the reasons for leaving school among children of the poor or dependent classes, it is obvious that the financial reason becomes the most important.

In a study of the effect of poverty on education in Allentown, Pennsylvania, by R. P. Holben, the following reasons were given for the withdrawal of 166 children from the public schools:[8]

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[7] *Ibid.*, p. 116.

[8] R. P. Holben, *Poverty with Relation to Education*, p. 143.

Reasons Specified	Number	Per Cent
To help support the family	125	78 3
To do housework at home	19	11.5
Too expensive to go to school	1	6
To help pay off home	1	6
Ill health	3	1 8
Death of father or mother	7	4 2
Dissatisfaction with school	8	4 8
Child's preference for work	2	1.2
TOTAL	166	100 0

Holben further points out that all of these school eliminations coincided with the periods of the families' dependence on charity. Fifty-six per cent of the children left school when the family was receiving charitable aid and the other 44 per cent left school either before or after such periods. Often the withdrawal of children from school caused the status of the family to change, their added earnings from work making further charitable aid unnecessary.[9]

3. *Withdrawals from High School.*—The Department of Vocational Guidance of the Pittsburgh Public High Schools analyzed the causes of withdrawal of students, other than graduation, during the first semester of the school year 1921-1922.[10] Out of a total of 707 withdrawals, 236 students, or 33.4 per cent,[11] gave as the reason that they were going to work. Unfortunately, no attempt was made to determine whether they were obliged to do so or were doing it from choice. There was only one instance in which

Ibid., pp. 142, 144.

[10] September, October, November, and December, 1921, and January, 1922.

[11] Research Department, Edward A. Woods Co.

the student was forced to withdraw and go to work because of a death in the family. There were 112, or 15.8 per cent, whose cause of withdrawal could not be determined, so it is possible that this number included a few students who were forced to withdraw for economic reasons.

4. *Withdrawals from College.*—With present facilities for working their way through schools and colleges throughout the country, there would seem to be little reason for young men and women not completing a college education, and yet probably less than a third of those who enroll the first year in college finally graduate.[12] Causes of withdrawal are doubtlessly as varied for college students as for children in public elementary schools, but perhaps with changes in their relative importance. For instance, one might reasonably expect to find a smaller percentage of withdrawals from college for financial reasons than from grade schools, since college students are a selected class whose parents have been financially able to keep them in school for twelve years or more. In addition, there are fewer small children to raise in such families. The parents, too, have had a longer time in which to accumulate funds with which to educate their children. On the other hand, college education must be financed by individual students or some one for them, while public elementary education is free. Any comparison, therefore, between the relative importance of causes of withdrawal in both kinds of schools should be on the same basis, namely, free schools where students are

[12] Civic Development Department, U. S. Chamber of Commerce, "The Business of Education."

charged no tuition whatsoever. The City of New York has maintained two free colleges for some time, one for women and the other for men, whose records of withdrawal reveal the following: [13]

TABLE V

REASONS FOR STUDENTS LEAVING TWO COLLEGES

Reasons	College of the City of New York (Men) June, 1920-June, 1924		Hunter College (Women) September, 1910-February, 1925	
	Number of Students	Per Cent	Number of Students	Per Cent
Dropped	1,166	32.7	1,491	41.2
Other schools .	1,012	28.6	503	13.8
Work	587	16.5	298	8.2
Illness: In family	106	3.0	531	14.7
Of student ...	....	....	96	2.6
Moved	15	.1	84	2.3
Other Causes ...	83	2.3	156	4.1
Unknown	600	16.8	477	13.1
TOTAL	3,569	100.0	3,636	100.0

However apparent these reasons seem, it is difficult to get to the underlying causes of why students leave school. Often the reasons given are but excuses or manifestations of deeper seated causes. For instance, in Table V, 16.5 per cent of the men and only 8.2 per cent of the women gave as the reason for discontinuance that they were going to work, meaning have employment in some gainful occupation. Many of the girls, on the other hand, were doubtlessly needed at home often during the school year to keep house in case of a mother's illness or death and so were dropped

[13] Research Department, Edward A. Woods Co.

on account of absence from school. On the other hand, the sickness withdrawal rate for women students was high compared with that of men, and part of this might be accounted for on the grounds of overwork, attempting to keep house and care for a family and attend school at the same time.

In spite of the seemingly small proportion of students who leave school for financial reasons, when the other causes of withdrawal are analyzed, it becomes evident that, if a decent standard of living were assured them while going through school and it were made attractive enough to compete with the temptations of jobs paying enough to afford the lacking necessities or modest luxuries, many students would complete their courses who now withdraw.

Young people as a whole are in no position to judge when they should leave school and, for the most part, neither are their parents or guardians. In the past they have seen the many examples of self-made men and women who have succeeded and made fabulous wealth or power. This is always possible in a new and growing country, but as natural resources become more developed and economic conditions settle down to a competitive routine, the chances of making sudden wealth through exploiting new lands or inventions decrease, especially for those who have had little formal training. Besides, in the past, many of these so-called self-made men have competed for success with a vast body of likewise uneducated people. Today, however, with education more general, those who succeed must compete with highly trained competitors, many of whom have specialized in narrow fields

of endeavor; hence, the chance of success for the untrained is narrowed still further. Finally, with the progress of the machine age, the integration of great industries, and the international aspects of finance, trade, and commerce, intensive training becomes more imperative for those who would direct or even take some minor part in such enterprises.

More general and higher education is needed not only to achieve the material things of life, but also to live and to enjoy our modern luxuries. One must achieve a reasonable standard to accumulate the means to afford modest luxuries and the leisure to enjoy them.

Increasing Expense of Education

With all these changing aspects of everyday life, even the content and methods of education change, each change being accompanied by an increased expense. Many of the states already have great demands made upon their treasuries for public improvements other than education; hence, the financing of higher and better education must be left largely to private means. Life insurance is admirably adapted as a means either of financing individual education or of providing funds for educational institutions.

Life Insurance for Individual Education

Any money left directly to a family may indirectly aid the education of children in it. Where families are left destitute, older children are often withdrawn from school and put to work to provide a living for themselves and the younger children. This is not necessary

where the breadwinner has provided some insurance, which, with what the widow can earn, often keeps children in school, at least until they are farther along in the grades.

Life insurance is also often taken for the specific purpose of putting a child through school in case the parents die before such education is completed. Most parents plan upon fully educating their children and undoubtedly will do so if they live and continue able to earn an income to defray its cost. However, death or permanent disability may disrupt the best laid plans.

Method

Life insurance taken for the specific purpose of educating a child usually consists of any regular form of life insurance policy combined with an agreement whereby the insured agrees that the insuring company shall hold any and all moneys payable under the policy until the child has reached a certain age, when it shall be paid for the express purpose of the child's education. This makes certain that the funds will not be dissipated by the child's surviving parent or guardian and assures the fulfillment of the insured's plans for the child's education. The insurance may also be payable to a trust company or other trustee, conferring upon it some discretion in the disbursement of the proceeds according to the needs of the child.

Forms of Policies Used

The form of policy used usually depends upon the circumstances of the individual case, such as the age

of the parent, the age of the child, the income of the former, his thrift habits, and his other financial program. The most desirable way is for a parent to take an endowment policy for a given sum (say five thousand dollars in the case of a college education) when the child is very young; then, by making small annual payments over a period of fifteen or twenty years, the fund can be accumulated in cash by a definite date in the future. Should the insured die any time after the first premium is paid, the full five thousand dollars is payable by the insuring company but held to accumulate at interest until the child has reached the designated age.

Where the parent is financially unable to pay the comparatively high annual premiums upon an endowment policy, he can elect any other less expensive form of policy which would provide the same amount of insurance protection in case of death, but would not provide as great a cash fund in case the parent lived until the child reached the designated age. Often a parent knows that a child will be able to earn his own way through school or college if the parent lives but may have to forego the education if he dies. In some instances, the life hazard may be covered for a very low cost through term insurance. However, some form of policy carrying a surrender value is preferable, since some cash is thereby accumulated and may be used in case of emergency or financial stringency to carry the protection.

Lower cost policies appeal also to those whose children are already near high school or college age and where current funds are needed for the immediate

purpose of starting the child to school, say in less than two years. At all times, insurance renders the education certain as far as the cost of financing it is concerned.

Life Insurance for Students

Many students, particularly those of college age, are able to borrow sufficient funds from relatives, friends, and acquaintances to see them through school. Sometimes they are able to give security for the loans; but, in the vast majority of cases, probably they are not. Their creditors must rely for repayment upon their later success in life coupled with their honesty. There are undoubtedly times, however, when repayment is out of the question. A student may fail, be expelled from college, be forced to leave school for work to support some dependent relative, or take sick or die. There is little or no recourse for a creditor in such cases, even if he cared to seek repayment. Such loans are usually made to minors; hence, the agreement has no legal standing; in most instances there would probably be no assets available even if creditors had such recourse. There is one way in which students with no security can provide it for their creditors and that is by insuring their lives for the benefit of creditors. Most students are young and healthy; hence the cost of such insurance is very low, enabling self-respecting students to carry it without much burden. It adds but 3 per cent approximately to the interest they pay on loans and at the same time creates an insurance estate for them which is available for their own use when the loan is ultimately repaid.

Insurance on the endowment plan may be used to wipe out even the loan itself.

This practice is commendable for a number of reasons:

1. It instills businesslike methods into students at an age when they need them.
2. It teaches them to be responsible for their debts.
3. It teaches systematic thrift and economy.
4. It emphasizes the cost and money value of their education and thereby tends to cause them to value it more highly.
5. It gives them a feeling of self-respect and relieves them from the worry of death or disability and consequent inability to repay their debts.
6. It starts an insurance estate for them when the annual cost is low.

Many ambitious students work their way through schools and colleges, attending classes part time and working part time, who might more advantageously borrow the money for their education, secure the loan by means of life insurance, and then repay it later. Some break down under the strain of working and attending classes and withdraw before their courses are completed. Others who succeed might have got more from their classes if they could have spent the time on additional study and research that they spent working to earn their way. At the same time, they would have enjoyed the leisure and extracurricular activities so vital to a well rounded education.

While higher education is financed by individual students or their families, few, if any, pay the college or university what it costs to educate them. In pri-

vate institutions the difference between the tuition a student pays and what it costs to educate him is made up by the interest from invested funds, which are called endowments. Publicly controlled institutions make up the deficit both through the income from endowments and state appropriations. In a few states, even privately controlled institutions receive state aid.

Table VI, adapted from a government report,[14] shows that less than a third of the receipts of universities, colleges, and professional schools came from students in 1923-1924, slightly less came from public appropriations for such purposes, and about a third from endowments and private benefactions. The importance of private gifts to educational institutions at once becomes obvious.

TABLE VI

RECEIPTS OF UNIVERSITIES, COLLEGES, AND PROFESSIONAL SCHOOLS IN 1923-1924

Source	Amount	Per Cent of Total
Student fees	$118,135,219	30.4
Income from endowments	40,431,608	10.4
State, city, and federal appropriations	105,893,973	27.3
Private benefactions . . .	81,734,738	21.1
All other sources	42,047,049	10.8
TOTAL	$388,242,587	100.0

Life insurance furnishes one of the most desirable means of providing bequests to educational institu-

[14] United States Bureau of Education, "Statistics of Universities, Colleges and Professional Schools," 1923-1924, p. 596.

tions, for it gives those in modest circumstances an opportunity to contribute to their alma mater or any school in which they are interested when they might not otherwise feel able to do so. It is easy enough for a wealthy individual to leave large sums of money or valuable securities the income from which is to be used by the institution in perpetuity, but many people of modest means hesitate to leave small funds which suffer by comparison. Through life insurance they are enabled to leave larger bequests than they could otherwise consider, since they pay a little each year for it. Such bequests are always certain; they are payable immediately upon the death of the donor; and they save the donor's estate the expense of estate administration.

It is becoming the custom in an ever increasing number of colleges for the members of graduating classes to insure their lives for the benefit of their alma mater. This insurance plan has a number of advantages:

1. It capitalizes the present knowledge the graduates have of the school's needs for funds. They have just finished courses probably taken at some disadvantage, for instance, an inadequate library, cramped classrooms, a poorly equipped laboratory, or unattractive or decrepit buildings.

2. It capitalizes the present enthusiasm of the graduates and tends to bind them closer to the institution. After they have carried policies for several years, their annual financial outlays for premiums will serve as a stimulus to keep informed on the affairs of the institution.

3. More people will ultimately leave money than otherwise would.

4. Early deaths will provide current funds to the college long before bequests from the class as a whole would come in.

5. The example of some members of a class taking insurance for the benefit of the institution undoubtedly influences others to do so who otherwise might not.

6. Self-respecting students are enabled to pay back the full cost of their education which has been advanced by the school or state.

7. The machinery of a life insurance company in collecting premiums over a long period of years is more efficient than a similar system of the school or the class would be.

Forms of Policies

For a group as young as the members of the graduating class of most colleges, the twenty-year endowment plan seems to be one of the best for such purposes. A given principal is accumulated for certain in that time or immediately upon the death of any donor. Where there is a definiteness of future income, the institution may more intelligently plan its expansion.

II. Philanthropy

Philanthropy has as its object the welfare of man. It embodies not only material relief to the poor and unfortunate but applies broadly to human development. Its tools are thus not only relief work, but

education, recreation, scientific research in medicine, sanitation, social relations, and economics. These benefit not only the poor but those in moderate circumstances and even the rich. Disease is no respecter of persons, hence the state of the public health is the concern of every one. Likewise education. In its financial aspect, philanthropy is the investment of funds in services or institutions that have for their purpose the betterment of the whole people, without thought or hope of monetary return. In a word, the practice of philanthropy is the keynote of Christian philosophy.

The Annual Cost of Philanthropy

If state expenditures for elementary and higher education be added to philanthropic and charitable bequests and contributions, there are probably three billion dollars given annually for public betterment in this country. Roughly speaking, about three-fifths is spent for education, one-fifth for the support of religious institutions, and the remaining fifth for charitable institutions.

Public and Private Philanthropy

Private philanthropy is the pioneer that paves the way for state support. Formerly, even elementary education was supported chiefly by private bequests and contributions, but as its social importance became better understood, the State took over its support and administration. Latterly the work of charitable aid societies in caring for destitute widows with children in their own homes has been taken over by a number

of progressive states who provide for them through mothers' pensions. Likewise, many health and sanitary measures fostered by private organizations are now public rules and regulations administered by public health departments.

There are many fields yet where public support or relief is practically unknown, and private agencies still carry the main burden of financing and administering such institutions and services. In the main, such work embraces higher education; charitable relief work with the poor, destitute, crippled, or defective; and medical, economic and social research. It is these activities, entailing between one billion and one and one-half billion dollars of expenditures annually, that can be materially aided financially by the institution of life insurance.

Financing Private Philanthropies

Private philanthropies derive their chief income from the current contributions of living donors interested in them and from the bequests of deceased benefactors. The income from the former can be fairly well estimated since the needs of the institutions can be put before them. Income from the latter, while usually coming in larger sums than the current contributions of living donors, is, neverthless, very uncertain because of a number of problems that come up in the settlement of estates. Among many others there is the shrinkage of estates through the process of settlement, the inroads made by inheritance, estate, and transfer taxes, the possibility of will contests, delays in receiving actual funds or securities under the be-

quest, and the frequent depreciation of securities or property so received.

The Shrinkage of Estates

Every estate depreciates or shrinks in the process of settlement,[15] the degree depending upon the debts, administration expenses, and taxes incident to it. Many people who desire to leave something to their favorite charity, church, or school are deterred by the knowledge that their estates will be worth far less at their death than while they are alive. Uncertainty as to the amount of shrinkage either causes them to leave smaller bequests than they otherwise would or to leave nothing whatever. Institutions are sometimes embarrassed to find that a deceased benefactor who contributed generously during his lifetime has left practically nothing at his death, particularly if such institutions have launched upon a program of expansion and have been counting upon a large bequest.

Effect of Inheritance, Estate, and Transfer Taxes

Such taxes must be paid in cash, usually within a year from the date of death and before even the deceased's family receives anything. Before these taxes became so common or their rates so high, many people could consider leaving something to charity who now hesitate to do so because of the inroads they make on the estate and also because their effect upon it is unknown. In very large estates, such taxes frequently amount to a fortune which might have been left for philanthropic purposes. For instance, the late James

[15] See below, Chapter VII, p. 205.

Stillman left an estate of over $40,000,000;[16] yet the Federal estate and New York inheritance taxes consumed over $10,000,000 which might have been given to philanthropy without decreasing the amount the heirs received. While the Federal Government taxed only net estates of $50,000 and over, under the 1916 act, from the date of its incidence to the end of 1925, $697,897,743 [17] had been collected from such estates; and these constitute the class of estates from which large bequests come. For example, in the same period these estates left charitable bequests aggregating $716,262,765.[18] This tax burden is for the Federal Government alone and hence excludes those levied by forty-five states. Many estates pay taxes in a number of states, that of the late H. C. Frick paying taxes in twenty-nine states and on one property paying taxes to the Federal Government and three states. Multiple taxation undoubtedly cuts down the amount that otherwise could be left to philanthropy. On the other hand, it is possible that the combined effect of the income and estate tax will be to encourage prospective donors to make more and larger gifts during their lifetimes.

Recently the Federal Government has given some relief with respect to estate taxes, raising the exemption limits to estates of $100,000 and over. However, there seems to be a general tendency among the states to levy additional burdens to wipe out the credits al-

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[16] Dan Nelson, "A Survey of New York Estates."
[17] Bureau of Internal Revenue, Treasury Department, "Statistics of Income," 1920, p. 41; 1921, p. 28; 1922, p. 59; 1923, p 37; 1924, p 79.
[18] *Ibid.*

lowed by the Federal Government. If this practice continues, the work of religious, educational, and charitable institutions will be further curtailed and at a time when their need for funds is increasing.

The Possibility of Will Contests

Where considerable sums are left to various philanthropies and there are disgruntled heirs who have received little or nothing from the estate, will contests often result. Frequently the heirs are distant relatives, often but very remotely known to the testator; yet hope of some gain from his estate prompts their legal action to break the will. Philanthropies in such cases are placed in the embarrassing position of either waiving their bequest, which they often need and have every legitimate right to expect, or else fighting the heirs. This is expensive whether they win or lose the case. If the former, their bequest is reduced by the expenses of legal fees and delays; if the latter, they have both the cost of the case and the loss of the bequest to bear. In addition, it might be inexpedient to even contest a suit by people prominent in the community.

Delays in Receiving Funds or Securities

There is always some delay in receiving a bequest since the estate has to be settled by an ordered, legal procedure which is not characterized by swiftness. An investigation made among a large number of colleges and hospitals brought out the fact that the average time elapsing between the death of the testator and the actual receipt of his bequest was two years, and in many cases a much longer time elapsed. For in-

stance, it was six years before the bequest of Samuel J. Tilden became available and nearly eight before Daniel B. Fayerweather's was received. Henry C. Frick, who died in October, 1919, left a number of munificent bequests, yet many of these are even still unpaid and much of the expense of administering and liquidating his estate, including payment of taxes amounting to nearly $11,500,000[19] has fallen upon charitable bequests.

Depreciation of Bequests

Many institutions are handicapped by the fact that endowments left a generation ago with the rates of interest and purchasing power of the dollar prevailing then are worth far less to-day and are frequently insufficient to carry out the purpose of the donor. For this reason, endowed chairs in colleges, hospital beds, cemeteries, and similar institutions are being required to augment funds insufficient to carry out their purpose. Bequests are often in the form of securities, which depreciate in value or yield only a low rate of interest in a period of high prices.

Advantages of Life Insurance for Bequests

The disadvantages of leaving bequests under a will, briefly discussed above, disappear altogether when such bequests are left in the form of life insurance.

1. Life insurance bequests do not shrink. The principal amount is paid to the beneficiary institution without any legal procedure whatever; hence there are no administration costs. Since the life insurance

[19] Dan Nelson, "A Survey of Allegheny County Estates," 1924, p. 3.

policy is a contract between the insured and the insuring company, it is not liable for the debts of the estate. It is likewise relatively free of the inheritance, transfer, and estate taxes levied upon the remainder of the estate; hence the three great items of shrinkage do not depreciate life insurance bequests.

2. While estate, transfer, and inheritance taxation has been expanding in the several states and has created new problems of leaving bequests, in effect they have encouraged bequests through life insurance.

3. There is no possibility of a will contest when bequests are left through life insurance. Upon the donor's death the insuring company pays its claim to the specified institution without any dissension, and there is no chance for disgruntled relatives to sue for a share of the proceeds. Even if there were, it is strong evidence that a donor expected to leave such funds the way he designated, since he has paid annual premiums, sometimes over a long period of years. Each time he did so, he implied that he was still intent upon leaving the principal to the institution he specified.

4. One of the greatest advantages of life insurance for bequests is that it is payable immediately upon the death of the donor, the institution receiving its bequest in a few days.

5. Life insurance bequests are payable in cash; hence there is no depreciation in assets. The sum is certain at all times and in the form most needed by philanthropic institutions. There is no problem as to what the bequest will be worth when paid.

6. Such bequests are made without interfering with the provisions of a will already drawn or to be

drawn in the future; hence they simplify matters appreciably. The affairs and circumstances of men change frequently and they often change their minds in regard to how their estate shall be distributed at their death; hence wills must often be rewritten or modified by codicils, frequently a dangerous procedure.

7. Life insurance bequests fulfill the donor's desire to leave funds to the institutions in which he is interested without diminishing the remainder of his estate. When the estate is modest in size and there are a number of heirs to be provided for, this is a great advantage.

8. Such bequests carry out the donor's wishes without compromise or alteration; hence he may be certain his desires will be fulfilled. Insurance policies may be changed at pleasure; hence they are flexible in providing for changed conditions. The total sum may be split up among a number of charitable, educational, or religious institutions, which procedure is much simpler than altering wills.

Purposes Served by Life Insurance

It may be used for the following purposes:

1. To continue an annual subscription to some cause for five, ten, or more years after one's death. The loss of even a small annual subscription is felt by most organizations. A bequest insurance policy, payable in a number of annual installments, would continue such subscriptions for years after the donor's death and would give the beneficiary institutions an opportunity to replace them. For example: A member of a church has been making an annual contribution of fifty dollars. At his death his family may not be

able to continue it. A one thousand dollar bequest policy will continue this subscription for over twenty years.

2. To guarantee the balance of an unpaid subscription For example: A subscriber to a hospital fund subscribes two thousand dollars payable quarterly over two or three years. A bequest policy will provide the balance of the subscription immediately, should he die before the expiration of that time, and without taking anything from the remainder of his estate.

3. To establish a memorial. For example: A man's wife has been very active in philanthropic work. A one thousand dollar bequest policy would provide an endowment for a memorial window in a church or help to provide for a bed in a hospital, a chair in a college, a chapel of a church, or a fund to be used for a Sunday school, home, or foreign mission.

4. To pay off a mortgage on a church, hospital, or charitable institution. For example: A local church has a mortgage of five thousand dollars. With the coöperation of the pastor and trustees, five members of the church may be induced to take out a policy for one thousand dollars cash, which will secure ultimate payment of the debt. If the policies are taken on the endowment plan, the debt will be liquidated within a definite period.

5. To insure the pastor of a church. The estates left by most clergymen are pitifully small. A church may insure its pastor, paying the cost of the insurance, so that his family will be decently provided for after he has gone; or some well-to-do member or members might wish to carry such a policy on the life of the pastor for the benefit of his family.

6. To provide a certain sum for one's alma mater or fraternity. For example: A graduate of a small university learns that the cost of educating a student exceeds the actual tuition paid by him by five hundred dollars a year.

By means of a bequest policy at his death, he can reimburse his school for the excess cost advanced toward his education while he was still in school.

7. To provide an old-age income, leaving the remaining cash to some charitable cause. For example: A chief surgeon of a local hospital, vitally interested in its affairs, is a bachelor having no immediate kin. He has taken an endowment policy which will give him a guaranteed income for his old age, making the hospital beneficiary to receive any cash remaining at his death.

8. To utilize existing policies. For example: A widower has a five thousand dollar policy and, having no children or immediate kin, is interested in changing the beneficiary to three institutions, making one-half payable to a church, one-fourth payable to a hospital, and one-fourth payable to a charity.

There are doubtless many policies now in force on the lives of persons now well up in years, which have served their original purpose, and are now desirable for religious and charitable institutions. Taken originally for a dependent family, this need has passed and the benefactor may be willing to assign such a policy to an institution in which he is interested because:

1. It is money he never expected to get or use himself.
2. It will not interfere with the settlement of his estate.
3. He will have the satisfaction of knowing that this amount will go *in full* to the designated institutions without any costs whatever of administration expenses or taxes.
4. Under the present Federal income tax laws, the annual cost of such policies is a proper deduction for income tax purposes, providing they come within the 15 per cent limit and the policies are payable absolutely to a charitable institution.

Institutions as Second Beneficiaries

Many people have their life insurance payable to but one beneficiary, such as mother,[20] wife, or child. It might be desirable to name a charitable institution as the second or alternate beneficiary in case the first named dies. Insured persons often neglect to name another beneficiary in case the first dies and such policies revert to the estate, thus becoming subject to inheritance taxes and administration expenses which would be saved by naming an alternate beneficiary.

Use of Insurance Left on Deposit

There are many policies, particularly those taken by persons of large means, where the principal remains with the insurance company at interest, the income only to be paid to a beneficiary. Provision may be made to have the principal paid to a religious or charitable institution upon the death of the beneficiary and thus save administration expenses and taxes.

New Insurance for Bequests

There are over 200,000 life underwriters in the United States who insure about 2,000,000 persons a year, excluding those who take industrial insurance, and many times this number of persons who are approached in the daily business of soliciting. Life underwriters, by presenting the needs of various types of organizations, can write much more insurance for such purposes and at the same time greatly increase funds

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[20] "Investigation Reveals that Wives Lead All Others as Beneficiaries," *Life Association News*, June, 1925, p. 127.

available for the future use of such institutions. Thus underwriters become solicitors for such organizations without any cost to the latter. At the same time, institutions are helped by underwriters spreading information about the need of funds and the kind of work such organizations do.

Additional Policies for Bequests

Every underwriter is interested in increasing the amount of his sales; hence, he is glad to suggest that a prospect considering a ten-thousand-dollar policy for his family take a number of additional policies for the benefit of institutions in which he is interested. Policies thus taken are placed while the prospect is in the right frame of mind and, in years to come, will mean an additional source of revenue to the beneficiary institutions. Such policies, if made payable absolutely to certain institutions, cannot be changed by will or codicil and the accumulated cash value will always belong to the institution.

Method of Providing Immediate Cash to Institution

Many people who will give nothing at all to a religious or other institution at their death, or would perhaps be able to leave but a small amount, might be willing to give a stated amount, from one thousand dollars up, in cash *immediately,* if certain that at death it would be returned to their families. If the insurance were on the endowment plan, it could be payable to them for their own old age. It sometimes pays an institution to carry life insurance on benefactors for the amount of such gifts. If the benefactor is com-

paratively young, twice the amount might be carried and the premium still be far less than interest on the money. In this way increased subscriptions or loans may be accrued.

An interesting example of this is the case of one hospital which insured donors for the amounts of their loans or gifts, on the twenty-five-year endowment plan. One friend, age forty-five, gave $50,000 in cash. The hospital contracted to insure his life for the $50,000, payable to his wife. Thus he has really not parted permanently with the $50,000, for he is certain his wife will receive this amount in case of his death, or he will receive the same sum if he is living at the age of seventy. Meanwhile, the hospital has $50,000 upon which it is paying, at the start, less than 5 per cent interest, and, in a few years, less than 4 per cent, owing to the decreasing cost from increasing dividends The principal never need be repaid by the hospital and the interest payment ceases at any time the donor dies or, in any event, when he reaches age seventy. The donor is certain that this $50,000 will be returned, assuming the solvency of the hospital, the life insurance company paying for it, in any event.

Under this arrangement, the donor is saved the income tax on the income of the $50,000 he loaned the hospital. He has parted with the principal and the enjoyment of the income therefrom permanently, or at least until he reaches the age of seventy and, what is more important, under present laws the $50,000 if received by his wife, will be free from any administration expenses, state or Federal taxes, and free from any claims upon the estate. Thus the donor is

more certain that his wife will be provided for in case of his death or that he will be taken care of in his own old age than if he himself undertook the payment of the annual premium on this amount of insurance.

Conclusion

The greatest service that life insurance renders philanthropy is in obviating the need for it, in reducing the number of dependent aged, widows, and orphans, and in providing funds through bequest policies for increased educational facilities, religious and welfare work, and better living conditions.

CHAPTER VII

THE RELATION OF LIFE INSURANCE TO DECEDENTS' ESTATES[1]

In an individualistic society, every one strives not only to gain a living for the present, but also to assure it for some time into the future. The saving of goods for future consumption, the exercise of foresight by man to provide for himself and his family in the uncertain future, has been one of the fundamental steps making for civilization. Foresight might be said to be the chief distinguishing mark to-day between civilized man and the savage.

As long as man spent all his efforts gaining a mere livelihood, there was no opportunity to engage in the productive arts of manufacture, nor to trade; but as soon as he learned to lay by surplus food, hides, and fur for use in the future, he assured a living for himself and family at least for a while. At the same time, he effected a future saving of time in hunting, which he could now use to build a better shelter, improve his crude weapons and tools, or experiment in plant growing.

[1] Much of the material presented in this chapter is from Alexander C. Robinson and Edward A. Woods, *Creating and Conserving Estates.*

The Development of Saving

Down through the ages this human providence of the necessities of life came to be applied to more and more items, developing in human beings the proclivity for accumulation until it became a habit. With the evolution of money as a general medium of exchange, it has slowly become the item in which one most often measures savings; but, after all, it but represents the millions of material items it will purchase. Thus the provident man of to-day tries to accumulate money which may be used in the future either by himself or his heirs, and the possession of it largely determines whether the individual will be self-sustaining throughout his life or whether he will become dependent upon society for a living. In such a society as ours to-day, a man's success in life, or at least his comfort, is largely determined by the amount of money that he has been able to accumulate. Whether this is or is not a just criterion of his worth to society is not for us here to consider. Suffice it for us to study the problem only as it relates to his individual material welfare and that of his family.

Life Insurance and the Estates of Decedents

We are concerned with a study of decedents' estates rather than the distribution of wealth among the living population, since life insurance helps chiefly to augment the former. There are many problems which beset all those who leave estates to-day, so it seems logical to determine what some of them are and to what extent they may be helped or solved by life insurance protection.

"Ordinary Estates" and "Life Insurance Estates"

Under present laws in this country, when a man dies his ordinary estate must be settled by law administered by a probate court. The term "ordinary estate" is used to distinguish his property possessions from the life insurance he leaves to specified heirs, which is paid directly to heirs without any legal procedure whatever. A man's material assets represent his "property capital," while his life insurance represents his "personal capital," his individual value as a productive human machine. Thus the following analyses of estates present chiefly the material goods which individuals have accumulated during their lifetimes, and which they leave to heirs at death. In the ensuing discussion the term "estates" is used in the sense of "ordinary estates" unless otherwise indicated.

Phases of the Estate Problem

There are many phases of the estate problem as it exists to-day in this country, some of which have been treated at some length; but, until very recently, little has been known about the fundamentals of the problem, and even yet much remains to be done with regard to the collection of facts. However, it is possible roughly to indicate some of the outstanding features from the few surveys that have been made of estates in selected localities from time to time, and from the results of these investigations to indicate how life insurance can conserve existing estates and create many new ones.

In drawing a picture of the estate problem, we shall consider: (1) the number of estates left annually; (2) the size and distribution of gross estates; (3) economic and social problems involved in settling estates, and (4) how life insurance can help solve some of these problems.

I. The Number of Estates Left Annually

The primary thing is to determine the extent or scope of the estate problem; that is, to endeavor to find out just how many estates are passed on each year by decedents to their heirs. At first thought, one might believe the majority of adults leave some estates to heirs. However, the Federal income tax returns show that slightly over 6 per cent of the population of this great, rich country make income tax returns, and over 90 per cent of these report incomes under five thousand dollars per annum. Obviously, few estates of any appreciable size can be created from such low incomes.

Surveys of Estate Records

The few scattered private studies that have been made of estate records clearly show that but a small proportion of adults do leave estates when they die and a third of these leave estates so small that practically nothing is left for heirs after the estates are settled. A number of these studies are summarized in Table VII which follows: [2]

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[2] Clarence B. Metzger, "Contributions of Life Insurance Research to the Estate Problem," p. 6.

TABLE VII

NUMBER AND PERCENTAGE OF ADULT DECEDENTS WHO LEFT ESTATES IN SEVERAL LOCALITIES

Locality	Year	Adult Deaths	Adults Leaving Estates		Adults without Estates	
			Number	Per Cent	Number	Per Cent
North Carolina	1921	17,687	5,018	28.4	12,669	71.6
Camden County, New Jersey	1921	1,722	515	29.8	1,207	70.2
Allegheny County, Pennsylvania	1921	10,041	3,547	35.3	6,494	64.7
Allegheny County, Pennsylvania	1922	10,413	3,273	31.5	7,140	68.5

In these areas it appears that approximately 70 per cent of the adults who died left no estate behind them to be settled. The Federal Trade Commission, in a study [3] of estates probated in twenty-four counties of thirteen states, found that only 43,512 adults left estates large enough to probate out of 184,945 [4] who died during the period under consideration. Thus 141,446 adults left either no estate whatever or else one too small to be probated. For the purpose of arriving at proportions of distribution, however, the Commission assigned an average of $258 per estate to this group. Such a sum in actual practice would not have paid the cost of even a modest funeral at current prices. Thus 76.5 per cent of the adult decedents in these twenty-four counties left practically nothing for the support of their dependents aside from what life insurance they may have carried.

[3] Federal Trade Commission, *National Wealth and Income,* pp. 56-69.

[4] *Ibid.,* p. 58.

In summarizing these several studies, then, it seems safe to say that approximately three-fourths of the adults who die leave no estate other than life insurance.

II. The Size of Gross Estates

The next step is to examine the distribution of estates by size. Since the distribution of annual incomes is so unequal, it would seem logically to follow that the distribution of capital, or estates, would likewise be unequal. In a study of 519 estates probated in Allegheny County, Pennsylvania, it was found that 69.8 per cent of the aggregate amount of the gross estates was left by twenty-nine individuals, or 5.6 per cent of the decedents leaving estates.[5]

Likewise, in the Federal Trade Commission's study of estates it was found that 4.7 per cent of the decedents who left estates large enough to probate left 62.2 per cent of the wealth.[6] Thus there seems to be great inequality in wealth distribution among decedents, which explains to some extent the cause of dependency of many widows and children.

The Distribution of Gross Estates

While it is very significant that three-fourths of the adults who die leave no ordinary estate, it is no less significant that at least a fourth of the gross estates left are under one thousand dollars, a sum so nominal that little or nothing is left when the debts

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[5] Clarence B Metzger, "A Study of Decedents' Estates in Allegheny County, Pennsylvania," p. 21

[6] Federal Trade Commission, *National Wealth and Income,* p. 58.

of the estate are paid. Table VIII[7] shows the detailed distribution of estates by various sizes in the most comprehensive study of this kind ever made in this country.

These percentages, by size of gross estate, check very closely with smaller studies that have been made in several localities, so it is highly probable that this sample is typical of the country as a whole. As will be shown later, the *gross* estate means little to heirs, for it depreciates perceptibly in the process of settlement. The *net estate* is the important item to dependents. Thus an estate of $5,000, while seemingly a large one for the average man, really is worth but a little over $3,000 after all the claims against it have been settled. If the breadwinner's family is able to exist on $1,000 a year, it means that a gross estate of $5,000 provides for but three years' sustenance; yet it seems safe to say that over 90 per cent of the adult decedents in this country leave gross estates under $5,000. Putting it another way, only one adult in every ten who dies leaves an estate of $5,000 or over.

Since society is composed largely of wage-earners having low incomes and their families, it means that the burden of caring for dependents falls most heavily upon those who already have heavy responsibilities of their own to bear. Any form of taxation that bears heavily upon wage- or salary-earners cuts down the savings that they might otherwise provide for the future use of their own dependents.

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[7] *Ibid.*, p 58, Table 10

TABLE VIII

DISTRIBUTION OF WEALTH AS INDICATED BY ESTATES OF 43,512 DECEDENTS IN SELECTED COUNTIES, 1912-1923

Size Group	Number of Estates	Value of Estates	Average Value	Per Cent of Total Estates		Per Cent of Total Probated Estates	
				Number	Value	Number	Value
Not probated *	141,446*	$ 36,493,068	$ 258†	76.5	5.2	...	...
Under $500	6,099	1,574,598	258	3.3	0.2	14.0	0.2
$500-$1,000	4,824	3,888,144	702	2.6	.5	11.1	.5
$1,000-$2,500	8,766	14,196,279	1,619	4.7	2.0	20.2	2.1
$2,500-$5,000	7,572	26,933,713	3,557	4.1	3.8	17.4	4.0
$5,000-$10,000	6,446	45,160,804	7,006	3.5	6.4	14.8	6.7
$10,000-$25,000	5,518	85,233,637	15,446	3.0	12.0	12.7	12.7
$25,000-$50,000	2,231	77,930,090	34,930	1.2	11.0	5.1	11.6
$50,000-$100,000	1,105	76,040,228	68,815	.6	10.7	2.5	11.3
$100,000-$250,000	651	97,599,624	149,922	.4	13.8	1.5	14.6
$250,000-$500,000	179	60,325,705	337,015	.1	8.5	.4	9.0
$500,000-$1,000,000	76	52,026,811	684,563‡	...	7.4	.2	7.8
$1,000,000 and over	44	130,913,033	2,975,296‡	...	18.5	.1	19.5
TOTAL PROBATED	43,512	671,322,676	15,428	...	...	100.0	100.0
TOTAL ALL ESTATES	184,958	707,815,744	3,827	100.0	100.0	...	...

* Estimated from census mortality tables.

† Decedents who left no estate for probate were presumed to have had as much property as the average of the lowest group, namely, $258 each

‡ Less than one-tenth of one per cent.

Changes in Distribution

Although all the data available on the subject suggest a wide variance in the wealth of individuals and a high degree of wealth concentration, yet there are indications that these conditions are changing. Table IX [8] shows in some detail the tendency towards wider distribution. Thus while 29 per cent of all the probated estates in 1912 amounted to less than $1,000, in 1923 only 20.8 per cent were under that amount; at the upper end of the scale, only 20 per cent of the estates were over $10,000, while 26.5 per cent were over that amount in 1923. In 1912, the total amount of estates over $100,000 amounted to 52.6 per cent of the aggregate value of all estates probated, while in 1923 they were but 45.9 per cent of the total.[9] This tendency towards a wider and more equitable distribution of estates is also shown in the results of the survey of Allegheny County estates, although not so markedly.

While this changing tendency is gratifying, yet the real change may not be so great as appears on the surface because of the fluctuating purchasing power of the dollar. For instance, an estate of $1,000 two decades ago would be worth over $1,700 to-day. Dependents are not so much concerned with the capital amount left to them as with the amount of consumable goods it will purchase.

[8] *Ibid*, p. 59, Table 11.
[9] *Ibid.*

TABLE IX

RELATIVE DISTRIBUTION OF WEALTH IN 1912 AND 1923, AS INDICATED BY PROBATE DATA*

Size Group	Number Estates		Value of Estates		Per Cent of Total Number		Per Cent of Total Value	
	1912	1923	1912	1923	1912	1923	1912	1923
Under $500	469	462	$ 119,353	$ 124,775	16.4	11.1	0.3	0.2
$500–$1,000	360	406	255,070	287,638	12.6	9.7	.6	.4
$1,000–$2,500	599	817	983,480	1,334,301	21.0	9.6	2.4	2.0
$2,500–$5,000	486	731	1,715,689	2,607,015	17.0	17.6	4.2	3.9
$5,000–$10,000	370	643	2,613,262	4,585,009	13.0	15.5	6.5	6.9
$10,000–$25,000	316	623	4,822,552	9,411,982	11.1	15.0	11.9	14.2
$25,000–$50,000	140	242	4,966,955	8,464,878	4.9	5.8	12.3	12.8
$50,000–$100,000	54	136	3,699,454	9,064,680	1.9	3.3	9.2	13.7
$100,000–$250,000	42	62	6,464,171	9,824,211	1.5	1.5	16.0	14.8
$250,000–$500,000	12	27	4,135,571	8,718,762	.4	.6	10.2	13.2
$500,000–$1,000,000	4	9	2,521,647	6,198,199	.1	.2	6.2	9.4
$1,000,000 and over	2	2	8,165,326	5,599,535	.1	.1	20.2	8.5
TOTAL	2,854	4,160	40,461,530	66,220,985	100.0	100.0	100.0	100.0

* This table is based altogether on records of probated estates and includes no estimate for decedents whose estates were not probated.

III. Economic and Social Problems in Settling Estates

The main problems involved in the settlement of estates may be roughly classified as follows: (1) the depreciation or shrinkage of estates; (2) the inadequacy of liquid assets to meet administration needs, and (3) the presence or absence of a will.

The Depreciation or Shrinkage of Estates

Every estate suffers some depreciation in the process of settlement or administration, no matter how carefully its creator considers and provides for the postmortem problems that will arise, for the very event of death creates problems that do not confront the estate while its owner lives. Inheritance, transfer, or estate taxes are but one problem, yet they alone are important when forty-five states and the Federal Government levy them. Multiple taxation, too, takes place in every estate where the assets include securities of corporations resident in various states.

Definition of Shrinkage Items

The settlement of decedents's estates in this country is a matter of legal procedure and court record; it is thus possible to determine officially the assets and liabilities which a decedent leaves, the cost of settling the estate, the amount of taxes imposed upon it, and the amount finally distributed to heirs. In the process of estate settlement, each estate suffers from

depreciation or shrinkage, which might be classified into debts, administration expenses, and taxes.

"Debts" include all claims against the estate up to the time of death, not including those caused by last illness, burial, or taxes, which are covered as a separate item.[10]

"Administration expenses" cover all expenditures made during the process of settlement, chargeable against the principal of the estate, such as attorneys', appraisers', and accountants' fees, executors' or administrators' commissions, court costs, premium on bonds, bills for last illness and funeral expenses, and a number of related minor charges.[11]

"Taxes" include the Federal estate tax, the inheritance or transfer taxes of the state wherein the decedent resided, as well as estate taxes paid in other states or foreign countries, unpaid income taxes for the current year, and other taxes covering real estate and personal property due at the date of death.[12]

The Extent of Shrinkage

These liabilities constitute the difference between the gross estate, which decedents often believe they leave to their heirs, and the ultimate or net estate, which is the residue heirs actually receive. In all studies available, this depreciation varies from 18 per cent in large estates to 38 per cent in small ones of $2,500, where any depreciation is apt to work real hardship on the heirs. The latter are more socially significant to study since they are the most numerous,

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[10] Robinson and Woods, *op. cit.*, p. 138.
[11] *Ibid.*, p. 139.
[12] *Ibid.*

and also because the social consequences of their settlement are greater.

The results of a number of studies covering almost seven thousand estates, selected at random, and administered in forty-five counties of seventeen different states, have been combined and are presented in Table X.[13] Their wide selection should eliminate the effect of unusual local conditions.

TABLE X

THE SHRINKAGE OF GROSS ESTATES

(In Percentages)

Size of Estate	Total Shrinkage	Debts	Administration Expenses	Taxes
$ 2,500	38.7	20.6	16.7	1.4
5,000 ...	37.5	19.9	16.2	1.4
10,000	33.5	18.2	13.2	2.1
30,000	19.0	10.0	7.5	1.5
50,000	17.0	9.0	6.0	2.0
100,000	18.0	8.0	5.5	4.5
500,000	19.0	7.0	4.0	8.0
1,000,000	20.0	6.0	3.0	11.0
5,000,000	24.0	4.5	3.0	16.5
10,000,000	29.0	4.0	2.5	22.5

Definition of Gross and Net Estates

One must be cautioned, however, lest the facts be distorted or misinterpreted. It should be determined just how accurate the term "estates" is as a standard of measurement of individual economic worth. The term is used here in its popular sense to mean the total assets owned by the decedent at his death with-

[13] Clarence B. Metzger, "Contributions of Life Insurance Research to the Estate Problem," p. 10.

out deducting any liabilities existing at that time or accruing thereafter. In other words, it is the gross estate and is the one probably subconsciously thought of by most people speculating upon their worth. It usually includes:

1. Cash in bank (savings and checking accounts)
2. Life insurance *payable to the estate*
3. Sound bonds, stocks, and similar securities
4. Real estate
5. Interest in partnerships or individual business enterprises
6. Worthless investments, such as stocks of unproductive or undeveloped mines, oil wells, defunct manufacturing corporations, and so on. There are few estates that have none of this useless script.[14]

When the debts existing at the date of death are deducted from these assets, the net estate remains. It is usually this portion of the original estate that is subject to taxation.

Gross and Net Estate as Criteria of Money Worth

Neither gross nor net estates are infallible criteria of decedents' economic worth. Many times considerable life insurance is carried over a long period of years for the benefit of specified heirs. When it becomes a death claim, it does not appear among the other assets of the decedent, for it passes directly to the specified heir from the insuring company. It is not subject to ordinary probate procedure. Thus decedents may actually leave much more to their heirs

[14] *Ibid.*, p. 7.

than estate records show. Unfortunately, there are no data which would show the number or amount of life insurance estates left in any locality at the present time.

Obviously, the gross or ordinary estate suffers from the creation of the life insurance estate, since the yearly premiums or payments establishing and maintaining the latter are diverted from the former. In other words, the creator of an estate has the option of investing his surplus funds either in stocks, bonds, mortgages, etc., or in life insurance. The chief relative advantages of these two kinds of estates are considered elsewhere, but it should be noted here that in effect the insured disposes of his life insurance estate before he dies by paying yearly premiums on insurance which he knows will be paid to the heirs he specifies in the insurance contract. In reality, he contracts with the insuring company for an estate to be purchased by installments.

Total Net Estate a Proper Criterion of Money Worth

The total net estate of an adult, or his net estate plus his life insurance estate, would be a more proper criterion of his money worth, but until means are adopted for ascertaining his life insurance estate, it will be impossible to know how much wealth is being passed on to heirs. There seems to be little doubt, as will be shown later, that many more heirs benefit from life insurance estates than from ordinary ones.

But even such a comprehensive definition as total net estate would not be an infallible criterion of money worth. In some instances men turn over portions and

sometimes all of their assets to their wives or other relatives for personal reasons, such as to evade inheritance or estate taxes or the demands of creditors in case of bankruptcy. Thus it is possible for a man's estate to show but few funds left for distribution to his heirs, although he may have died in very comfortable circumstances. However, this applies to but a small percentage of the total number of estates left.

Percentage of Estates Left Two Decades Ago

In an investigation of probate court records in Allegheny County, Pennsylvania, in the period 1897-1902, it was found that only 11 per cent of the adult decedents left estates. In 1921 and 1922, 35.3 per cent and 31.5 per cent respectively left estates.[15] Thus it seems that the distribution of wealth is spreading in this territory. However, this numerical gain is partly offset by the fact that the real value of estates in the latter years was considerably less than in the former, due to the decline in purchasing power of the dollar.

Debts of Estates

Debts are the most important items of depreciation in small estates up to $10,000, where approximately 20 per cent of the gross estate is consumed in meeting liabilities existing at the time of death. This class of liabilities is a by-product of the credit system and will doubtlessly always constitute an appreciable portion of the depreciation of small estates. No

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[15] *Ibid.*, p. 6.

matter how far-sighted a man may be or how promptly he pays his bills, in all probability he will leave outstanding bills for current living expenses at death, such as accounts for groceries, meat, fuel, light, telephone; pledges to educational, religious, and philanthropic institutions; lodge dues, trade organization fees, unpaid notes, mortgages, and so on. These in the aggregate make deep inroads upon the capital of small estates, but in the larger ones are relatively less important.

Administration Expenses

Administration expenses, like debts, are serious reducers of gross estates up to $10,000. With debts they might be considered a relatively fixed charge against the assets of the estate, with a more or less definite minimum cost beyond which few economies can be effected. To reduce the percentage of debts, our present economic system would have to be revamped and a pay-as-you-go cash policy adopted in place of the credit system; to reduce administration expenses, our expensive, intricate, and antiquated legal system would have to be modernized and some of the outstanding abuses connected with the burial of the dead abolished. Some of these remedies seem very far off, so the major portion of these two great classes of depreciation must be regarded as relatively inevitable for some time to come.

The Cost of Burial

The cost of burial alone is a very important item of depreciation in small estates. Burial customs and

rites of earlier days still persist in the present day in spite of vitally changed living conditions and high costs. An elaborate funeral for the dead is almost a fetish among some classes of people, and expenses are often incurred out of all proportion to the deceased's circumstances. Little heed is given to the consideration of expense when any member of the family dies and less when it is the breadwinner. The widow almost invariably believes that the last thing she can do for her husband is to give him an elaborate burial and she therefore allows the undertaker to act accordingly. Then, too, few people at the death of a loved one are in a condition to know what a casket should cost and even to ask its price is somehow considered a mark of disrespect for the dead. Even if not unduly upset by the shock of death of a dear one, the average man or woman has no way of knowing how much a proper funeral should cost or, in many cases, how much the estate can afford to pay.

Some unscrupulous funeral directors and undertakers have been quick to capitalize this popular reticence on funeral costs to great advantage and have made unreasonable profits both upon their services and the caskets they handle as middlemen. Their abuses have become so flagrant that corrective legislative proposals are appearing with increased frequency, and, in addition, a number of large organizations have undertaken a scientific study of funeral costs throughout the country.

The most unfortunate element in the problem is that the burden of high funeral costs, like most others, falls most heavily upon those least able to bear them.

Table XI [16] tells only a part of the story since the term funeral expenses excludes the cost of cemetery lots, graves, headstones or monuments, and mausoleum rentals.

TABLE XI

PERCENTAGE OF DEPRECIATION OF GROSS ESTATES THROUGH FUNERAL EXPENSES IN 362 ESTATES PROBATED IN ALLEGHENY COUNTY, PA

Size of Gross Estates	Funeral Expenses	
	Average Cost	Percentage of Gross Estate
$ 1,000– 5,000 ...	$ 337	13.4
5,000– 10,000 ...	394	5.4
10,000– 30,000 ...	485	2.8
30,000– 50,000 .	570	1.4
50,000– 100,000 ...	795	1.1
100,000– 500,000 ...	1,314	.5
500,000– 1,000,000	2,029	.3
1,000,000– 5,000,000 . .	2,684	.2

Study of estates records further reveals the fact that ofttimes funeral bills are paid before other claims against the estate, and frequently, where the estate is small or insolvent, the widow pays them with her own funds, although such bills are not properly chargeable to her. Thus the foregoing figures are an understatement, since payments made by others than the estate are omitted. Under the laws of some states, funeral bills are preferred claims.

Too often among the poorer classes the kind of funeral accorded an individual depends upon the amount of life insurance he carries, and for years there has

[16] Clarence B. Metzger, "A Study of Decedents' Estates in Allegheny County, Pennsylvania," p. 25.

been a close correlation between the amount of claims paid beneficiaries on industrial insurance policies and the cost of funerals. Thus many times the living suffer for the sake of the dead.

High funeral costs are not due alone to occasional unscrupulous undertakers nor to outworn funeral customs, but also to changing social conditions and generally advancing costs. Not only has the price of caskets and services gone up with the general advance of prices, but the cost of graves, monuments, transportation at funerals, of chapel and church services have also grown apace. There is hope that some of the abuses prevalent to-day in the undertaking profession will be eliminated and some costs thereby reduced, but there is little chance that other costs will decrease perceptibly unless prices generally fall. There is a movement now among leading undertakers to study costs and suggest means of their reduction to those who can ill afford them.

Taxes

This is the only factor of estate shrinkage that can be affected to any appreciable degree by legislative fiat. The most important class of taxes in this classification is inheritance, estate, and transfer taxes, those for property and income being but a relatively small percentage of the total paid upon an estate. Taxes are relatively unimportant on small and modest sized estates up to $100,000, where they are only 4.5 per cent of the gross estates. (See Table X.) The purpose of such taxes seems to be to effect a more equitable distribution of wealth, since they fall upon large estates

rather heavily. The figures indicate that they act as a leveling rod for the distribution of wealth, since they increase directly with the size of the estate, until in the great estates of $10,000,000 and over, under existing laws, they consume over 22 per cent of the estates.

The Unmeasurable Depreciation of Estates

The depreciation or shrinkage of estates that has been considered thus far is a direct one that can be measured. However, there is an indirect depreciation which cannot be ascertained which arises out of the frequent forced sales of assets made necessary by the demands upon the estate for cash to settle debts, administration expenses, and taxes. Most inheritance taxes must be paid within one year of the date of death and most debts and expenses of administration should be paid within the same period. This necessitates the presence of a large cash fund in estates, which is seldom found in gross estates over $10,000. This is shown in some detail in Table XII,[17] which contrasts the average percentage depreciation of gross estates with the percentage of cash available to executors to apply toward liabilities.

This study closely accords with that of the Federal Trade Commission which found that the amount of cash in estates varied inversely with the size of estates.[18]

In large estates the assets are chiefly in the form of stocks, bonds, and miscellaneous items. The credit of

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[17] Clarence B Metzger, "Contributions of Life Insurance Research to the Estate Problem," p. 13.

[18] Federal Trade Commission, *National Wealth and Income,* p. 65.

TABLE XII

PERCENTAGE DEPRECIATION OF GROSS ESTATES CONTRASTED WITH THE PERCENTAGE OF CASH CONTENT, ALLEGHENY COUNTY, PENNSYLVANIA

Size of Estate	Shrinkage	Cash Assets
$ 2,500	38.7	58.5
5,000	37.5	41.2
10,000	33.5	29.5
30,000	19.0	6.0
50,000	17.0	14.7
100,000	18.0	4.4
500,000	19.0	3.3
1,000,000	20.0	2.0
5,000,000	24.0	1.8
10,000,000	29.0	2.5

such estates is good while their owners live and thus there is no need to carry large cash accounts. The man of limited means, however, usually has limited credit and, therefore, has to keep a relatively large cash fund on hand to meet emergencies.

The Importance of Liquid Assets in Estates

When the cash fund in an estate is exhausted, the other assets are used up in the order of their marketability. Thus high-grade bonds and stocks are sold, then real estate, then slow-moving securities, and finally "frozen assets," if at all salable, but all too frequently the latter are utterly worthless. As a rule, they represent stocks in undeveloped or unproductive oil properties, land schemes, mines, defunct manufacturing enterprises, and just plain frauds. Few estates are entirely free of a certain proportion of such worthless assets.

Thus the assets of estates become more immobile

as they are exhausted. If liabilities against the estate could be paid in kind, that is, a certain part of each kind of asset, there would be little unmeasurable shrinkage in the gross estate. As it is, securities or real estate frequently have to be sold at inopportune times, as for instance, when the market is low or when the heirs need the use of the specific property. Again, if the estate is administered in time of business depression, it may be difficult to dispose of the assets at any price or even borrow funds on them except at excessive rates of interest.

The Social Effects of Forced Sales of Assets

It is not always feasible to sell the assets of an estate in order to realize cash to defray estate liabilities. For instance, the chief asset of a small estate might be a farm, whose only market would be neighboring farmers, who, though willing to buy it, might themselves be short of ready money. Again, the most valuable asset might be a small retail business with local competitors as the only possible buyers, who find it to their advantage to delay purchase until the estate has to sacrifice the business to get the necessary cash. Thus, even a prosperous business in a small town might depreciate greatly at the death of its owner and the loss fall most heavily upon the widow and other dependents least fitted to bear it.

The interest of a partner in a small though prosperous concern may shrink to nothing upon his death, owing to the surviving partner's inability to carry on the business alone. Often friction arises between the latter and the widow, who has a difficult time try-

ing to understand why a seemingly prosperous business should fail to pay large profits even after her husband is gone. The factor of good will in a profitable business often disappears entirely when it passes into new hands. Likewise, the expensive professional equipment of the doctor, lawyer, architect, and engineer is almost worthless secondhand. Ofttimes the wife is entirely ignorant of business affairs while the husband lives, through his natural desire to free her from worry over the hazards and difficulties of the business; yet when he is gone she has to face the facts, and this at a time when her best advisor has been taken from her. Whether much or little is left to the wife who has been sheltered from the business world, grave financial problems beset her at her husband's death, even where no fraud exists. Frequently, however, even women left very comfortably fixed lose their fortunes all too soon. With the lower income groups, the wives have had to be economical all their lives. Thus, when the wage-earner dies, they often support their families a remarkably long time on the scant funds usually left.

Sometimes the settlement of an estate may have very wide social results. This may be illustrated by the case of the estate of Leland Stanford, western capitalist and philanthropist, who died during the panic of 1893. Although he left an estate valued at many millions of dollars, his widow was left with practically no ready funds, as was also Leland Stanford University, his chief philanthropy. But for a forgotten policy of life insurance for but thirteen thousand dollars,[19]

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[19] Pamphlet of Pacific Mutual Life Insurance Co.

discovered in time, the university would have been compelled to close its doors in spite of the fact that Mr. Stanford's endowments to the university were the largest given to a university up to that time.

A man worth five thousand dollars may have little indebtedness while living, but his death may easily create liabilities aggregating a thousand dollars. It might have entailed considerable difficulty for him to have raised such a sum in cash while living, yet his heirs are confronted with the problem when he has gone and his assets have shrunk.

Other Losses in Estate Settlement

There are several other sources of loss in estate settlement which deserve attention. They are litigation over estates, depreciation of assets, and poor management of estates. These are by no means incident to every estate, but in the aggregate they are frequent enough to occasion much annual loss to heirs.

1. *Litigation over Estates.*—Litigation arises out of the real or supposed inequitable distribution of estates either by will or by adminstrative procedure directed by law, through the covetousness of kindred or out of family dissensions. It is the conflict of heirs to seize that portion of the estate to which they feel they have an actual or moral claim. There are no figures available showing the annual loss from these legal contests, but judging from legal reports, they must be very great. One legal authority, judging from the great amount of space given to decisions on will contests in legal reports, has formed the opinion that when the amount of the estate is sufficiently tempting, a

will contest is reasonably certain. Another has declared that not only are a large proportion of the wills bequeathing property of considerable value contested, but most of them successfully so. There are only too many instances where the wills of eminent lawyers and jurists, such as Samuel J. Tilden and former Vice President of the United States Fairbanks, have been bitterly contested. In many instances the litigation lasts for years, and, in some cases, the legal fees have consumed the entire estate. In others, colleges, hospitals, churches, and charitable institutions have had the option either of relinquishing valuable and much-needed funds willed to them and which they had every reason to believe the testator intended to leave them, or of engaging in long and expensive litigation with relatives, often very distant ones, of the deceased. Where such wills have been broken, the costs of litigation have often been very large and have thus been a total loss to the institution. In either event, a large loss falls upon the estate, since it frequently has to pay legal fees of both sides. Meanwhile, the distribution of assets, however badly needed, is delayed. Property in litigation very often depreciates in value and nearly always ill-feeling arises between litigants, frequently the closest relatives. Many life-long feuds have started from such beginnings.

It has been said that if time is taken to carefully investigate them, few wills can be found in which there is not some flaw or other; and, if sufficient legal fees are available, there are few cases where such wills may not be broken, mental incapacity on the part of the testator shown, or undue influence used to secure at

least a compromise. It is impossible, too, to ascertain how many cases are compromised to avoid threatened will contests with all of their consequences in cost and ill-feeling. There are also suits of creditors or governmental agencies suing for taxes. Even if the estate is successful in the contest, it frequently has to bear the cost of litigation, which is a heavy drain upon prime assets.

It seems reasonable to presume that if a man has been competent enough to accumulate an estate, he should have the foresight to make a will, disposing of his possessions in some logical manner to his several heirs, yet studies of estates in different parts of the country show that slightly over 50 per cent of decedents leaving property leave wills directing its disposition. On the average, about 15 per cent of all adult decedents leave wills.[20]

Most individuals neglect making a will and appointing an executor possibly because it brings up an unpleasant subject and the operation is frequently a troublesome matter requiring concentrated thought and careful planning. It is, nevertheless, very important and should not be put off, for if a man's intimate financial affairs are troublesome to him while he lives, how much more so they will be to his widow or other heirs after he is gone! A will is especially desirable in small estates unable to stand wasteful and purposeless litigation.

One of the chief by-products of the operation is that it frequently gets an individual to put his financial house in order. It directs his undivided attention to

[20] Robinson and Woods, *op cit.*, p. 189

the specific problems of his dependents. Frequently his will can be much simplified by providing for specific heirs through life insurance on his own life or by purchasing annuities for them. This step often averts the possibility of a later contest of the will.

2. *Depreciation of Assets.*—Assets of an estate often depreciate even though not sold under forced sale. A successful investor has to constantly watch his business, the market, and his securities. If the price of a particular security continues to fall, he considers selling; if the price of an issue rises, he may buy more and hold. The price of success in the security market is truly eternal vigilance.

When an investor dies, his stocks and bonds usually lie unwatched until distributed. The value of a business site may fall or low-yield securities be kept in a time of high return. True, assets may by the same token appreciate in value but the records of estates studied indicate that for the vast majority of cases, depreciation is the rule.

3. *Poor Management of Estates.*—Estates often suffer by the poor management of executors and administrators in the process of settlement. Frequently executors are chosen by testators on a basis of friendship rather than upon merit or qualification for the duty to be discharged. The death of the creator of an estate throws great responsibility upon the executor, whoever it may be. Where the widow is made the executrix, it is frequently the first time she has had to assume any business responsibility. Bereaved dependents naturally turn for advice to sympathetic relatives or friends, business associates, or other ac-

quaintances, many of whom are inexperienced themselves or else injudicious. The idea seems to prevail that, because a person is honest, a good friend, a relative, or a minister, he is a wise financial guide; but the contrary is often only too true. Again, the selfish interest of advisors may cause them to give unsound although well intended advice. It is almost too much to expect impartial or sound advice from a relative or former partner, particularly if he is in need of funds.

The Services of Trust Companies in Settling Estates

The need for unbiased, impersonal, but trained executors has led trust companies to enter the field as professional executors. With them, estate settlement is a matter of daily routine which they are well equipped to perform. In addition to the qualifications possessed by private executors, such as honesty, patience, conservatism, and so on, the trust company possesses certain other advantages: [21]

1. It is constantly available and its officers may be consulted at any time by heirs. Frequently a private executor can give them but little, for his own business and pleasure trips may take him far afield.

2. Trust companies are corporations and thus live on indefinitely. A private executor, no matter how efficient, may die, become old or ill. In case of unusual mortality conditions, two or more executors might die on the job. A good trust company has a large enough working force to insure constant attention to estate matters.

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[21] *Ibid.*, pp. 185, 186.

3. Trust companies are generally strong institutions and are financially responsible for their acts. Their capital, surplus, and general business condition are known at all times.

4. Officers of trust companies are well versed in finance since it is part of their everyday business. They are, therefore, able to handle the securities of an estate intelligently and efficiently.

5. Trust companies usually also have real estate departments that are equipped to handle the real estate assets of estates in their care.

6. Trust companies have the outstanding advantage of experience in estate settlement. Handling estates every day, trust officers learn to effect many economies that are possible only through experience.

7. Trust companies can administer estates impartially without fear or favor of heirs. A widow administering an estate often yields to the importunities of her children clamoring for funds and lends money, becomes security for loans, and allows more to them than a trust company would. Often, too, a member of the family administering an estate hesitates to do many things that might adversely affect the personal relations of the testator's business associates to the family.

8. Trust companies have taxation experts and trained accountants who can give estates the best service in these fields.

9. By their very nature, trust companies have to be well informed on all legal matters so that estates in their charge have the benefit of legal information without constant resort to attorneys.

10. They are under the constant audit and supervision of the state in which they do business, as well as that of the court.

11. In case of unusual difficulty in handling the estate, the trust company is in a position to know of and command expert advice on almost any subject.

12. Trust companies settle small estates more economically than private executors. This has been found to be the case in a number of investigations.[22]

Trust Company Services for Small Estates

Contrary to general opinion, trust company services are more important for small estates than large ones. The prime need of the former is conservation of every possible dollar and the trust company is the logical executor for such estates. Since trust companies are profit-making institutions, however, they will as a rule probably bid for the business of large estates; but the man of limited means would do well to put his estate in trust with these corporate fiduciaries, which will almost always manage them more cheaply as well as more efficiently, than individuals.

IV. How Life Insurance Can Help Solve Estate Problems

Services of Life Insurance in Estates

Life insurance provides cash immediately upon the death of the insured. This is a most important point to consider by those who expect to leave ordinary es-

[22] *Ibid.*, p. 182.

tates and all-important to those who expect to leave only life insurance estates. By making sufficient life insurance available to executors, liabilities of estates can be met immediately and certain discounts received. For instance, one state, in the payment of its inheritance tax, offers a discount of 1 per cent per month for each month prior to the expiration of one year from the date of death of the decedent. Thus if the estate pays the tax a few weeks after the testator's death, his estate saves 12 per cent of the inheritance tax. On the other hand, most states attach a penalty for each month after the due date. Adequate cash provided through life insurance also avoids losses due to inability to pay debts promptly and costly delays due to legal procedure. Wasteful litigation may also be reduced or eliminated and no hardship worked on the heirs, who frequently advance their own funds to save estates in which they have a real or hopeful interest.

Life Insurance for Estates versus *Life Insurance Estates*

Life insurance available to executors should not be confused with that payable to specified beneficiaries, which might be called the life insurance estate. The former should be carried by the owner of an estate in addition to his insurance payable to specified heirs as a supplementary asset which performs the valuable function of saving the estate for ultimate distribution to heirs and at the same time provides an adequate cash fund to enable the estate to be settled in the quickest and most economical manner possible.

Extent to Which Insurance Is Used for Estate Purposes

There are few figures available which would indicate the extent to which life insurance has been used in the past as a supplemental aid to estates, but in the last three or four years a large number of trust companies and life insurance companies have been advertising the advantages of supplementing ordinary estates with life insurance, at the same time setting forth some of the problems that beset estates. It is too soon to measure the results of this coöperation between these two institutions in bringing these issues before the public, but the influence will be more pronounced as time goes on. Its significance may be appreciated to some degree by the results of one study, which showed that of the total cash left in 362 estates, 13 per cent was provided by life insurance payable to the estate and yet there were only 11 instances, or 3 per cent of the cases, where such insurance appeared.[23]

Other Services of Life Insurance to Estates

While the first function of life insurance is to provide cash for estates, it also performs several other very important services which are not so evident. One is the constant work of insurance underwriters urging prospects to attend to their estates. This at least causes some men to give attention to their private financial affairs. When once the problems of estate

[23] Clarence B Metzger, "A Study of Decedents' Estates in Allegheny County, Pennsylvania," p 37.

settlement are known, any man is more apt to make proper provision for them. Another service of life insurance is the influence it exerts on thrift. The insured, by paying annual premiums, is more or less forced into the habit of systematic saving. Finally, since life insurance is payable to specified heirs in the vast majority of cases, that for estate purposes directs the insured's attention to the real financial needs of his several dependents. If he takes insurance for their benefit, he knows that they will receive the proceeds without chance of litigation.

Life Insurance Estates

The discussion thus far has centered around ordinary estates, but far more people leave life insurance estates and possibly the majority of those leaving ordinary estates also leave life insurance estates. A life insurance estate may be defined as the capital or income an individual leaves to a specified heir or heirs through the medium of a life insurance contract. It differs from an ordinary estate in that it is created as soon as the insurance contract is issued, its sum is certain, it is payable directly to heirs without any legal procedure upon the death of the insured or the maturity of the contract, and it is usually payable to specified heirs.

Number of Life Insurance Estates

While there are no official figures available on the subject, it is probable that over half of the adult decedents leave life insurance estates while less than a third leave ordinary estates. If the uninsurables were

excluded, possibly three-fourths of the adults who die leave life insurance estates.

In many instances, the proceeds of life insurance payable to specified heirs helps to save ordinary estates by enabling the heirs to advance ready cash to meet the estate's administration needs, and thus the insurance performs a double service. For example, ready funds supplied through life insurance payable to the widow enable her to pay her husband's debts, although she is not legally liable for them. However, if she can pay them, she protects the estate, since otherwise assets would have to be sold to raise money. An heir with money can often prevent a mortgage foreclosure, a loan being called, or securities being sold to raise cash for estate needs.

Life Insurance Estates and Earning Value

Life insurance enables one to capitalize the value of his life so that, when he dies, his heirs receive the money value of his earning capacity in so far as it is covered by insurance.[24] The far greater number of workers in this country earn their living by personal service; so their ability to work at some trade or occupation is their greatest asset, and, by translating its value into money through life insurance, they are enabled to pass on their true wealth to their heirs. As more people come to realize this fact, life insurance estates will increase both in size and in number. S. S. Huebner, of the University of Pennsylvania, has well described life insurance as the bonding of human values.

[24] See above, Chapter I.

Advantages of Life Insurance Estates

The creation of life insurance estates has certain advantages that recommend this form of estate building to the small wage-earner as well as to the wealthy capitalist:

1. It is created immediately upon the issuance of the insurance contract. A man taking a thousand-dollar policy creates an estate by the simple process of paying the first annual premium. If he dies the next day, his heir gets the thousand dollars.

2. It is built up over a period of years. The insured pays a small annual deposit which establishes a reserve fund for his use whether he lives or dies. He is buying an estate on the installment plan with the added advantage that the remaining installments are canceled at death.

3. The amount of the insurance estate is certain at all times. There is no shrinkage at death, as is the case with securities in ordinary estates settled in periods of depression.

4. The insurance is payable in cash.

5. It is payable either as capital or income. This second provision is very important and should be the form chosen for most heirs. There is a tendency to lose money that comes too easily. Heirs at best are poor investors of funds even in legitimate enterprises and are too often the prey of bogus stock and bond salesmen. A steady, certain income which will provide necessities and the comforts of life for heirs is more important than a large capital fund which they would not know how to conserve.

Social Significance of Life Insurance Estates

Life insurance performs its greatest social service by providing cash funds at the death of individuals to care for the needs of their own dependents and others largely dependent upon them for a living. Ready money keeps the home intact and the children at school and so gives them the advantage of a better start in life. Businesses are enabled to carry on where insurance has financially replaced the value of a departed manager or key man or has re[illegible] partnerships; and charities, which annually benefited by his generosity, are enabled to continue their work. Finally, the nature of life insurance estates makes for stability of economic and social conditions.

For those of limited income, chiefly from personal services, life insurance offers one of the few means of creating an estate. For the wealthy, life insurance aids in the conservation of estates in the process of settlement and helps to keep the estate at par at death. In both cases, the insurance is paid for during the lifetime of insured persons and the expense of the insurance estate ceases at death. Through it, the poor man buys an insurance estate on easy terms; the rich man pays but a small fee for saving his accumulated wealth.

CHAPTER VIII

LIFE INSURANCE A PROMOTER OF THRIFT

Thrift is the foundation upon which the success of an individual or a nation is built. It is one of the distinguishing marks of civilization, since it manifests man's providence for the morrow. It is the exercise of prudence and foresight in the accumulation of goods or their equivalent for future use and is a habit which distinguishes the civilized man from the savage. Under our present organization of society, it is imperative that every individual be thrifty, at least to some degree, to prevent his ultimately becoming dependent upon society for a living. For the vast majority of people, the degree of their thriftiness measures their success in life, at least financially or in terms of material measures.

Measures of Thrift

Though the thrift of a nation is usually measured in terms of its aggregate amount of annual money savings, it applies just as fully to time and energy. He who is prodigal of the time he wastes or the energy he expends uselessly is just as much of a spendthrift as he who spends money lavishly on extravagant luxuries.

It is practically impossible to measure the extent of even our annual money savings, since the full sig-

nificance of the term "savings" is the excess of annual production over annual consumption. Thus the enormous capital investment in buildings, machinery, railroads, public utilities, highways, and other improvements is the result of past savings of people who have invested their surplus earnings in productive enterprises. It has been estimated that about 40 per cent of the country's savings are made by business enterprises, which retain or reinvest profits which might otherwise have been distributed to individuals.[1] Thus most of the annual savings are plowed back into the businesses in which they originate and do not appear as savings but are reflected in the increased wealth of the nation. Other savings are in the form of larger stocks of clothing, personal ornaments, furniture, and automobiles, constituting about 9 per cent of our savings.[2] Thus these two great classes account for about one half of the total savings of the people. The other half is made up chiefly of those mediums which are usually thought of when one speaks of the thrift habits of the people and embraces such mediums as savings bank deposits assets of life insurance companies, building and loan associations, sums applied toward the purchase of homes, and a part of the sums spent for new security issues.

The Extent and Growth of National Savings

Not only has there been a steady increase in the annual incomes of American workers and business

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[1] Wesley C Mitchell, *Business Cycles—The Problem and Its Setting*, p. 152.
[2] *Ibid.*

men, but their savings have increased as well. While the latter cannot be fully estimated, Table XIII [3] indicates the growth of those items reflecting the savings of the vast majority of the population.

TABLE XIII

EVIDENCE OF GROWTH IN NATIONAL SAVINGS

(In Millions of Dollars)

Year	Assets of Building and Loan Associations	Total Savings Deposits, June 30	Admitted Assets of Life Insurance Companies	New Security Issues*
1922	3,343	13,281	8,652	4,304
1923	3,943	15,180	9,455	4,304
1924	4,766	16,456	10,394	5,593
1925	5,509	18,086	11,538	6,224
1926	6,280	21,204	12,850†	6,311

* Estimated

† New capital issues of corporate, foreign government, farm-loan, and municipality securities.

Two reliable authorities have estimated that about one-seventh and 15 per cent respectively of our annual national income is saved, about one-half of which is represented by the above items.

Thrift and Savings

Thrift is a habit; savings are the result of the functioning of that habit. Thus those forces which encourage and stimulate the habit of thrift are of great social value in that they result in those savings which have made possible increased production and higher standards of living.

[3] Monthly letter on "Economic Conditions, Governmental Finance, United States Securities," issued by National City Bank, New York, May, 1927.

Dismissing the savings of business enterprises and confining the present discussion to the savings of the people represented in Table XIII, p. 232, the thrift of individual citizens is absolutely necessary in order to insure their present standard of living and to provide for their dependents in case of their death. Under a money economy where all the comforts and necessities of life are interpreted in terms of the dollar, it is necessary to provide enough of those dollars to take care of a man and his family during their lifetimes. Thus the habit of thrift strikes at some of the fundamental instincts and desires of man, such as providing a home, caring for his dependents in case of premature death, and laying aside for the proverbial rainy day. Thus the institution of life insurance is one of the strongest forces not only providing for the fundamental needs of man, but encouraging and developing the habit of thrift as well.

The Influence of Life Insurance upon Thrift

It has been said that there are three essentials of a successful savings account: (1) a definite sum to deposit (2) to be deposited at a definite time, and (3) to be deposited for a definite [illegible] Life insurance answers these requirements fully in every respect and therein lies its success as an agent of thrift. It has the advantage of offering a specific objective years in the future and furnishes the machinery for collecting sums toward that objective weekly, monthly, quarterly, semiannually or annually, until it is finally reached. The fact that there is a penalty if the plan is discontinued is itself an advantage. A life insur-

ance policyholder puts himself under a voluntary obligation to save money for a specific and vitally important purpose sometime in the future and the purpose usually affects the welfare of his family or himself in his old age. Consequently there is a great incentive to continue an insurance program once it is started.

The Influence of Savings Banks upon Thrift

Savings banks are one of the most important institutions encouraging thrift and are utilized by millions of persons in all walks of life. They are not competitors of life insurance companies, but rather kindred institutions, and people should utilize the services of both, as millions do. Savings banks furnish the medium for accumulating a capital fund to be used for temporary emergencies or a capital fund to realize some desire. Life insurance companies cover the life hazard of individuals and insure the realization of one's financial desires in case of premature death. Deposits in savings banks have been growing steadily year by year, but unfortunately in the last several years there has been a decline in the average deposits, which might be accounted for by the fact that many people are investing more of their savings in homes, life insurance, securities of corporations, and enjoying a higher standard of living. In savings banks there is not the same outside pressure upon the depositor to persist in depositing a specific amount of money regularly for a long period of years. Many start such a plan but few persist. The element of a definite sum to deposit at a definite time is lacking. Diligent efforts to find the number who have monthly deposited

money in a savings bank over a long period of years has failed to reveal any such depositors. Most depositors who start savings accounts realize the necessity and importance of saving and intend systematically to save some of their earnings, but with the numerous demands made upon them to buy countless luxuries, few persist in their intention. Even though the temptation to withdraw money from the bank to buy an automobile or an expensive radio is resisted, some immediate need, real or fancy, too soon offers an excuse for neglecting the deposit for one month, with the intention of making it up later; but generally the result is that the plan is sooner or later abandoned, and the former regular plan of savings gradually ends in sporadic deposits and finally in none at all, and sometimes even in the withdrawal of money already saved. Valuable as are savings banks as a powerful influence for thrift, not only is their number of depositors far less than the number of life insurance policyholders, but the increase in their number is much less rapid than that of life insurance policyholders. In 1925, there were 14,656,545 depositors in mutual and stock savings banks,[4] but the real number was probably somewhat less because of duplication of those who had several accounts. In that same year there were probably four or five times as many life insurance policyholders.

Savings banks have attempted to offer a definite objective in the form of Christmas savings or Christmas clubs, and these have been very valuable in devel-

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[4] *Statistical Abstract of the United States*, 1925, p. 270.

oping the systematic deposit of money over a definite period of time. Their chief value lies in developing sporadic habits of thrift into systematic ones, and they serve as stepping stones in the development of regular savings accounts. It has been very gratifying to find that many people who have started a Christmas savings account have not spent the sum accumulated by Christmas time but have converted a portion of it into a regular savings account or into useful channels of spending, such as paying the annual tax on a piece of property, paying an annual life insurance premium, or paying off a certain portion of a mortgage on their home. Others who have started vacation clubs for the purpose of accumulating a fund to take a vacation the following year have saved some of their fund accumulated for this purpose and put it into a regular savings account.

Through the coöperation of life insurance companies and savings banks, the public is slowly becoming educated to the importance and value of systematic saving and of planning to save a portion of earnings before they are spent rather than saving what is left out of earnings after other expenditures have been made. With many, the habit of saving is relegated to what is left after one has spent all that one desires, which is contrary to the old Jewish custom of tithing, where one-tenth is religiously dedicated for charitable purposes, leaving but 90 per cent of one's income available for oneself. Any successful savings program must be based upon a similar practice and savings must be taken from earnings before any expenditures are made.

The Incentives of Life Insurance Thrift

The main purpose for which most life insurance is carried center around objectives of the highest social value, the home and family, which are the fundamental social units of our civilization. Comparatively little insurance is procured with the intention of having the proceeds spent extravagantly or for speculative purposes. Thus there is the strongest of incentives to continue insurance programs once started and fully understood.

Being tied in with the welfare of the family insurance, thrift is of a long-term nature and is, therefore, particularly important. The man or woman who takes a life insurance policy starts upon a definite financial plan which will continue for years, during which time he or she will have to save a certain sum of money and live upon that much less. The cost of the life insurance becomes a part of the family budget and becomes a more or less forced saving. A young man receiving a salary of $100 a month and paying a life insurance premium of $100 a year has put himself under voluntary obligation to live upon $1.100 a year instead of $1,200, because $100 is saved through his life insurance. Life insurance thus undoubtedly plays a strong part in teaching policyholders to sacrifice present expenditures for future comforts, either for oneself or one's family, and at the same time tends to crystallize vague plans for family welfare into definite objectives even though in the distant future.

Life insurance thrift saves for the essentials of our economic order, particularly as they relate to indi-

viduals. It is thus a more valuable form of thrift than others which just serve as means to accumulate enough capital to expend on consumable goods. It is obviously more important to save money to buy a home than to buy an expensive automobile beyond one's means or needs or to take an extensive trip not required for either health or culture, but for pure amusement. The purchase of a home is not only a financial investment, but is a permanent shelter provision for one's family as well. Thrift plans are important to the degree that they meet such needs as educating children, preventing dependency of the aged upon society, providing emergency funds for families to take care of sickness or accident, and protecting widows against eviction from homes upon which mortgages would otherwise be foreclosed. These are the purposes for which life insurance is carried.

The Importance of a Definite Objective

One of the chief reasons that life insurance is such a successful form of thrift is because it provides a definite objective for saving. For instance, in taking an endowment policy, payable in twenty years or at a certain age, say sixty-five, one constantly has a goal before one and has the same incentive to continue towards it as he would have in paying entirely for a home. One is not so likely to abandon his annual life insurance saving, because, in so doing, he would have to abandon the ambition of receiving the one thousand dollars, or more, at the end of a specified and definitely expected time. Theoretically, one might

stop a game of golf at the seventeenth hole, but few people do. Likewise, a twenty-year endowment policy might be abandoned and the cash value taken at the end of the nineteenth year, and one calculating nicely might even come to the conclusion that there was comparatively little loss in taking the money at that time instead of at the twentieth year. As a matter of fact, however, very few of such policies are terminated in the nineteenth year otherwise than by death, just as comparatively few games of golf are terminated at the seventeenth hole. Thus there is a practical psychology in life insurance that unfortunately has not yet been applied to many other forms of thrift, such as savings banks.

The same principle applies to almost every other form of life insurance. The straight life, or limited payment policy, is taken to provide for a widow or children or to pay a mortgage on the home or to educate the children; the life income policy is taken to secure comfort to the family and replace the income of the husband and father when he can no longer provide it. The old-age income provides a pension for one's declining years, beginning at a certain age or date constantly before him.

The Socializing Effects of Life Insurance Thrift

Life insurance is of great social value in merging the financial interests of all classes of people throughout the nation and combining them in one great, coöperative thrift movement. The millionaire of the great city, the farmer of the plain, the workman, and the schoolteacher saving from a modest income for her old

age are all joined together and their contributions thrown together and invested in one vast common fund for the benefit of all. The man of means, carrying a great deal of insurance, has no antagonistic interest to the man carrying but a thousand-dollar policy. All have a common interest in the safe investment of funds, in the longevity and health of all, and in everything that makes for the stability, security, and permanence of this common fund. The thirteen billion dollars now invested in American life insurance is a fund that covers, not a few of the wealthy, but all of the sixty or more million people who have some share in it. Therefore, stable financial conditions, the wealth of the community, and the wise administration of these institutions become the common concern of all who wish to experience the rewards of thrift and to see, in the security offered by America's great life insurance institutions, the satisfying of their dearest objectives.

In the Middle Ages the thrifty did not dare openly to enjoy the rewards of their industry and sacrifice as we do in America to-day. Their wealth had to be hidden, buried in the soil, or converted into jewels which could be safely and easily concealed. Life insurance to-day brings a justified satisfaction and feeling of pride and independence. The thrifty member of an American life insurance company is confident of independence in his old age, of a reasonable provision for his family if he dies, of the payment of his obligations, of provision for his burial, and liquidation of his liabilities. All these things have been made possible by his own frugality and foresight and not by the enervating

effect of paternalism, doles, or the charity of others. He feels certain that through his thrift his great objectives in life will be carried out, whether he lives to see them done or not. At the same time, interwoven with this method of securing satisfaction is his interest in the industries of the country in which the proceeds of his life insurance savings are invested. Thrift, therefore, to him does not mean parsimony; it means independence and satisfaction, and he does not face accident, sickness, or unemployment with dread or despair, but with the fortitude that comes from having earned the right to the peace of mind and the independence that repay his sacrifice and foresight, industry, and frugality.

Life Insurance as an Encouragement to Thrift

The psychological effect of life insurance in forming thrift habits is probably as important as the actual remedial services it performs in the way of payments to beneficiaries. Thrift is a habit which must be cultivated, nurtured, and encouraged; and the constant pressure exerted upon policyholders by the machinery of collection departments of life insurance companies to keep insurance in force is a powerful stimulus to systematic thrift. It is becoming the practice of wise parents to start policies of insurance upon the lives of their children while yet comparatively young. A policy started for a boy of fifteen and paid for by the father until the boy is out of college and earning his own money is something that the young man is unlikely to abandon, particularly if the policy has an objective in the near future. He has only to pay the

remaining payments and these at a much lower rate than if he took out new insurance at his attained age. At the same time, he probably has to pay premiums for only half the time that he would if he took out a new policy. Continuing the policy and receiving its benefits encourage the habit of thrift and secure appreciation of the value of life insurance. The young man is more apt to become thrifty in other ways as well.

Effects of Life Insurance upon Other Forms of Thrift

A number of investigations [5] indicate that life insurance not only does not infringe upon other forms of thrift, but encourages them. Life insurance policyholders, bank depositors, home owners, and security owners are not separate classes but largely the same class. Thrifty individuals follow a well balanced program of savings, using the various means of saving according to their importance and applicability to the individual's case. This is well exemplified by the wide advertising of banks and trust companies throughout the United States who urge their depositors and the public to buy life insurance to cover their life hazards and by life underwriters constantly urging their prospects and policyholders to save in addition to their insurance programs.

Insured people, as a whole, represent the cautious, conservative, and thrifty element of the population who are attempting to avert poverty for their families, dependency, and the other ills that flow from them. In both England and this country, there has

[5] Research Department, Edward A. Woods Co.

been a reduction of poverty, orphanages, and the amount of dependent old age as life insurance has grown.

Thrift as a Character Builder

Archbishop Ireland once said that the habit of thrift for both individual and nation is not so much a habit of income as a matter of character. It is the weakling who is a spendthrift. The man with foresight who looks ahead and has the self-restraint to refuse to spend to-day what he will need to-morrow has a strong will power and a very desirable trait of character. Those who build for the future are the backbone of the nation. It was the thrifty who bought Liberty bonds and financed the country in the days of the Great War. As the thrifty people in a community grow and the thriftless decrease, society is strengthened. In these days when the dependent are no longer allowed to starve or die but are considered the liabilities of society, accumulation is the difference between the estates of the thrifty and the liabilities of the thriftless. In every family, as in nations, anything that tends to decrease the number of dependents, whether permanent or temporary, increases the number of self-supporting individuals and at the same time promotes the stability and welfare of society.

Necessity of Thrift in the United States

One of the greatest services that life insurance performs is the teaching and encouraging of thrift in a country noted for its extravagance, waste, and prodi-

gality. Thrift accompanies not wealth, but rather low income. It is, in countries, as well as with individuals, where the getting of money is hard that the habit of saving most prevails.

The very terms in which Americans speak of money illustrate a perverted view of wealth. They speak of wealth in terms of capital; a man is said to be worth $100,000 or $1,000,000. An Englishman speaks of income, "ten thousand pounds a year"; and the still more thrifty Frenchman, in speaking of money made, means money saved. Our very mental attitude towards wealth is, thus, not one of saving but one of spending principal, forgetting that capital or principal should never be considered money to be spent but as the *source* of income only. A corporation or an individual, no matter with how great an income, who spends all, really makes nothing; and there is no more reason why an individual should speak of his gross income as money made than a bank or railroad company should speak of gross income as earnings, when only the difference between gross income and expenses could properly be considered such.

National Wealth and Income and Thrift

The national wealth and income have been so large in this country and have been increasing so rapidly that many have lost sight of the necessity of continued saving. All progress in the future depends upon saving and conservation regardless of present wealth or income. Although much the wealthiest nation in the world to-day, the United States ranks

fifteenth [6] in the proportion of population carrying savings bank accounts. It ranks seventh [7] in the average deposit per inhabitant, and first only in the size of the average deposit account. Of course, savings bank deposits do not measure the entire thrift of a nation, and it is possible that the savings of many Americans take other forms, such as the purchase of life insurance, homes, securities, and similar avenues of thrift. However the proportion of savings bank depositors to population in this country is still far smaller than it should be with our annual national income exceeding the national wealth of any country in the world with the exceptions of the United Kingdom and the British Empire.[8] The annual value of our manufacturing output alone in 1923 equaled the estimated national wealth of Canada or Japan,[9] and the value of our agriculture the same year equaled the wealth of Australia and South Africa combined. With such unlimited wealth, it is a grim paradox that poverty, thriftlessness, and dependency should exist to the extent they do in this country. Yet with a nation, as with an individual, wealth does not necessarily mean thrift; it does not necessarily even mean progress or prosperity. On the contrary, wealth is more often accompanied by waste and extravagance.

Many great nations of the past, with Rome as the classic example, thrived, prospered, and grew powerful

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[6] "Report of the Comptroller of the Currency," 1925, pp 134, 135 The number of depositors in the United States ranks fifteenth for only those countries given. Italy and Germany of the large European countries are not given.

[7] *Ibid.*

[8] *World Almanac,* 1927, p. 297.

[9] *Ibid.*

when they had to struggle for existence, but once achieving their secure position and wealth, all too soon fell into decay. The idle rich and the thriftless masses are the menace of any nation. They were in Babylon, Assyria, Persia, Greece, and Rome in antiquity, and in France at the time of the Revolution. They are even so in America to-day.

No amount of wealth will replace character; neither will it take the place of personal righteousness. The characteristics of thrift and economy, however, will do more than anything else to bring back the type of man that made New England, and that makes any nation strong and great. Only by what is saved now can the future wealth of the nation be measured. Those who will control the affairs of America a generation hence will not as a class be the sons and daughters of the rich, brought up in luxury and left in affluence, but those who to-day are working for a living or for their education, who have been brought up among the wholesome, frugal surroundings and influence of the moderately situated or the poor. It is probably still generally true "that it is but three generations from shirt sleeves to shirt sleeves," and that most successful men and women of the next generation will come from the farms and the homes of preachers and teachers and not from our great extravagant cities.

A great institution that is encouraging more than a majority of the entire population to practice systematic thrift over a long period of years or a lifetime and so to form habits that foster other ways of saving is of great social, economic, and even spiritual value to the nation.

CHAPTER IX

SOCIAL SIGNIFICANCE OF LIFE INSURANCE COMPANY INVESTMENTS[1]

Life insurance investments are not only an important but a vital force in our complex social order. Through judicious utilization of the wealth entrusted to their care, the life companies are contributing, in constantly increasing measure, to the development of the country and are meeting the ever increasing demands of a more and more intricate civilization. Life insurance funds, the vastness of which kindles the imagination, are invested in enterprises that promote the welfare of the people. In this manner they have played a commanding part in the raising of the social standards of Americans to the highest plane in the history of the world. The companies not only have safeguarded the savings entrusted to their care so as adequately to mature policy obligations, but they also have administered these accumulations so as to improve materially the living conditions of our citizens, thereby rendering untold and lasting benefits to the nation.

Insurance Policyholders as Capitalists

An outstanding feature of the social and economic aspect of life insurance investments is their great

[1] By Charles F. Creswell, Statistician, Association of Life Insurance Presidents.

service in extending to many individuals participation in the ownership of the country's fundamental industries. At the end of 1926, there were approximately fifty-eight million policyholders who thus had become financially interested in the nation's farms, houses, hotels, office buildings, railroads, public utilities, and other enterprises. The aggregate reserves of the individual policies, invested through the institution of life insurance, have entered the great channels of industry, trade, and commerce. In this way, the policyholders have become capitalists and thereby have become intimately concerned in the welfare of the country's enterprises. This extensive coöperation between wealth, representing many individuals, and business is beneficial to the vast number of persons whose savings have become a part of the enormous aggregate. The individual savers stand as capitalists and reap the benefits of their investments in the form of interest and dividend returns paid to their companies and benefit indirectly from the resulting prosperity of the country, the advance of civilization, and the betterment of living and working conditions for themselves and their fellow men.

The very nature of legal reserve life insurance necessitates a large accumulation of funds. This accumulation to meet future liabilities under policy contracts is the fundamental principle of such insurance. There must be on hand, at all times, assets not only equal to the legal reserves under unmatured policies, but also equal to matured obligations in process of settlement. Prudent management requires that additional reserves or surpluses be set up and maintained to

cover unexpected death losses and expenses, fluctuations in investment values or income, and other contingencies.

The Nature of Reserves

The companies contract to pay the face value of the policies as the insurance becomes due. The policyholders, in turn, pay premiums covering the cost of policy benefits plus the necessary expenditures incident to the conduct of the business. The premium scientifically calculated to meet anticipated claims and expenses during the life of the contract, credit being given for assumed investment earnings, is stated in the policy for the entire payment period. As the percentage of death losses among any group insured at one time will increase with the age of the group, the pure premium is greater than necessary to cover the death losses in the earlier years of the policy. These excess payments, set aside as reserves, accumulate at compound interest and make possible the continuation of the policy, without change of rate, throughout the later years when the pure premium is insufficient to meet current death losses. Such policy reserves plus necessary business reserves and surpluses make up the total assets of the companies.

Extent of the Life Insurance Business

The face value of the life insurance outstanding in United States legal reserve companies, at the close of 1926 approximated $80,000,000,000. This insurance, carried in over 300 companies and covered by 108,000,000 policies on 58,000,000 lives, averaged $737 per

policy and $1,378 per person insured. The reserves and other assets held by the companies at that time, which, with future premiums on existing policies and future investment earnings, assure the payment of all policy claims when due, were in round figures $12,850,000,000.

Public interest in this vast fund suggests the wisdom of stressing its nature, multiple control, and multitude of ramifications. Eighty-six per cent of this amount, $11,000,000,000, constitutes the reserve fund, the mathematically determined present value of the liability under outstanding policies, which the companies are required by law to maintain. These legal reserves, the great common thrift fund of the policyholders, always equivalent to the accrued liabilities under outstanding policies, guarantee the fulfillment of each policy contract, just as gold and silver, held by the National Treasury, secure the gold and silver certificates so common in our everyday life. The balance, $1,850,000,000, of assets is represented by liabilities other than legal reserves and by funds for additional protection of contract guaranties in excess of the legal reserves. As the amount of insurance, wisely provided by Americans for their dependents, grows, so do the assets. As assets grow, so do the equities of policyholders.

Public Service Rendered by Reserves

It is not alone in relation to the direct interest of policyholders that this great fund is of interest. These assets render a great public service through their investment in securities of a wide range of individual

and corporate enterprises located in every section of the United States and in Canada. This capital fund, flowing in small sums from millions of policyholders to home offices of more than three hundred companies, is there assembled by the companies and distributed in larger sums throughout the nation in exchange for safe, income-producing securities. Thus the companies fulfill their first obligation to policyholders to make the reserves productive. At the same time, they perform essential social and economic functions in furnishing capital required for the development of our farms, railroads, and other industries, the housing of our people, and the financing of governmental activities.

The Volume of Insurance Reserves

The total of $12,850,000,000, standing by itself, defies human comprehension. Only by reducing it to terms of the individual, or by contrast, is the magnitude of these funds brought within the realm of easy understanding. These assets averaged only $119 for each outstanding policy and $222 for each policyholder. In the aggregate, they exceed the assets of all our savings banks and approximate half the resources of all our national banks. These life insurance assets are greater than one-half of the total value of all railroad trackage and equipment of the nation; they exceed one-fifth of the total value of all farm lands and buildings in the United States; they are one-third greater than the value of the world's supply of monetary gold; and they are now equivalent to one-twenty-eighth of the entire material wealth of the

country—truly, a remarkable monument to the thrift and prudent foresight of the American people.

Growth of Life Insurance Assets

The phenomenal growth of these funds is indicative of the continuous progressive development of the institution of life insurance and of its gradually growing popularity among individuals as a means of protection and of saving. The aggregate of these life insurance investments in 1860 was scarcely $30,000,000; forty years later, in 1900, it had mounted to $1,742,000,000. By the close of 1906, the aggregate had increased to $2,924,000,000 and since then has made rapid strides, reaching the sum of $12,850,000,000 on December 31, 1926. The gain during these twenty years was $9,926,000,000. The gain during the calendar year of 1926 alone was more than $1,300,000,000.

Life Insurance Assets and National Wealth

The growing confidence of our people in life insurance protection for the family and the increasing social and economic importance of this agency of thrift are forcefully illustrated by the following comparisons of life insurance assets with the estimated material wealth of the United States.

In the year 1880, when the total admitted assets of United States life insurance companies were $460,000,000, the total material wealth of the country was $43,642,000,000. At that time, the total wealth held by life insurance companies was 1.1 per cent or one-ninetieth of the total national wealth. This ratio of life insurance investments to national wealth had

mounted, by 1890, to 1.2 per cent; by 1900, to 2 per cent; by 1904, to 2.3 per cent; by 1912, to 2.4 per cent; by 1922, to 2.7 per cent, and by 1926, to 3.6 per cent.

TABLE XIV[a]

RELATION OF LIFE INSURANCE ASSETS TO NATIONAL MATERIAL WEALTH
(Assets of all United States legal reserve life insurance companies)

Year	Life Insurance Assets*	National Wealth	Per Cent
1880	$ 460,000,000†	$ 43,642,000,000	1.1
1890	771,000,000	65,037,000,000	1.2
1900	1,742,000,000	88,517,000,000	2.0
1904	2,499,000,000	107,104,000,000	2.3
1912	4,409,000,000	186,300,000,000	2.4
1922	8,652,000,000	320,804,000,000	2.7
1926	12,850,000,000†	360,000,000,000‡	3.6†

* Assets, except for 1880 and 1926, from Spectator Company, *Insurance Year Book*. National wealth data, except for 1926, are estimates of United States Bureau of the Census.
† Estimates of Association of Life Insurance Presidents.
‡ Extrapolation of census data.

Each of these succeeding periods brought forth, not only a substantial increase in the aggregate of life insurance assets, but a greater relative increase than had occurred in the rapidly expanding material wealth of the United States. In 1880, life insurance holdings were equivalent to one-ninetieth, and in 1926 to one-twenty-eighth of the tangible wealth of the nation. During this period, life insurance accumulations expanded to twenty-eight times their aggregate of 1880, while the national material wealth expanded to eight times its amount of 1880. In other words, during this span of forty-six years, life insurance assets increased

[a] This table is reproduced from Proceedings of the Twentieth Annual Convention of the Association of Life Insurance Presidents.

over three times as fast as did the material wealth of the country.

An Incentive to Saving

These life insurance accumulations, amounting at the close of 1926 to $12,850,000,000, are the savings of the people, principally the wage-earning and salaried classes. These same classes, too, have largely received the payments already made to policyholders and beneficiaries which, during the twenty years ending with 1926, approximated $14,000,000,000. Life insurance assets during the same period increased over $9,800,000,000, so that such savings through the medium of life insurance during the twenty years exceeded $23,800,000,000. How much of this total would have been saved but for life insurance is conjectural. It seems safe to assert, however, that a major part, perhaps nearly all, probably would have been expended by the individual current with its earning. Unquestionably, much wealth has been diverted from wasteful to useful channels through life insurance.

Problems in the Investment of Life Insurance Funds

Safety.—One of the major problems in the life insurance business is the safe and profitable investment of the moneys which are held in trust for the protection of policyholders. It is necessary that each investment be made with such a degree of financial knowledge and care as to safegard the principal. None of the assets can be jeopardized by unsound or speculative investment. Security of principal is the primary requisite in the investment policy of any life insurance company.

This great need for safety of policyholders' funds has been recognized by the various state and other jurisdictions in the framing and enactment of laws regulating their investment.

Yield.—Given reasonable security of principal, the next consideration is the yield or return on the investment. The determinations of premiums and of reserves by legal reserve companies are predicated, in part, on an assumed minimum investment yield, usually 3 per cent or 3.5 per cent, varying with different companies and in different jurisdictions. It is essential that the companies secure this minimum required yield in order to meet their policy obligations. It is also desirable to obtain such maximum yield as is consistent with safety in order that the company may gain full benefit from the investment of its funds. These extra earnings inure to the advantage of the policyholders in the form of higher dividends or of lower premiums. Investment earnings by life insurance companies, on the whole, materially exceed the minimum requirements and compare favorably with general market yields. The average interest rate on the invested funds of ninety-five life insurance companies is shown in the *Insurance Year Book* of the Spectator Company to have ranged, during the last twenty years, from a low of 4.68 per cent in 1906 to a high of 5.38 per cent in 1923 and 1924. The aggregate rate earned by these companies during the five years 1906-1910 was 4.79 per cent; during 1911-1915 was 4.82 per cent; during 1916-1920 was 4.90 per cent; and during 1921-1925 was 5.34 per cent. The average for the entire twenty-year period was 5.04 per cent.

Marketability.—Safety of principal and maximum investment earnings are attended by adequate marketability and diversification. Unusual need for liquid funds may arise in case of heavy calls by policyholders for money as loans or as cash surrender values. To provide for such a contingency, life insurance investments are so distributed that part, at least, can readily be turned into cash without sacrifice of principal. Such action, however, usually is merely precautionary because the current income of life insurance companies normally is more than adequate to defray all death claims and other necessary outlays. Furthermore, it is recognized that the need for ready salability is minimized by the effect of maturing investments upon the companies' cash resources.

Diversification.—Both geographically and among different classes of securities, diversification is desirable in order that a depression on the part of the country or in any particular industry may not directly affect the income from the entire invested assets of the company. Such diversification also is necessary in order to make available sufficient channels of sound and profitable investment for the huge and rapidly augmenting life insurance funds. By this means, safety of principal, investment yield, and marketability all are enhanced.

Desirability of Long-Term Securities.—The investments of life insurance companies are, on the whole, in relatively long-term securities. This practice is desirable in order that the accumulating reserves may continue constantly at work earning interest without loss caused by interruption and without the expense

necessarily incident to reinvestment. The length of the term, however, for which investments are made, is influenced frequently by the rate of return in relation to the basic trend of interest rates.

Contribution to National Development

Having given proper attention to all considerations which any company must take into account for the protection of, and adequate yields on, its funds, thought also is given to the outstanding character of the contribution to national development made by these life insurance investments. Indirect benefits to the policyholders and to the people at large result from the investment of life insurance funds. These moneys function for the common good. They supply credit when and where it is needed, assist in the building and purchasing of homes, finance transportation systems, and render valuable assistance to all fundamental industries and economic enterprises of the nation. These funds thus serve a dual purpose. They guarantee the full and complete performance of the policy contracts to the millions of policyholders and their beneficiaries. Through the medium of credit extension, they serve the nation in its economic, financial, and commercial complexities. Life insurance funds, in brief, form a social and economic stabilizer of rapidly growing national importance.

Investment Problems

The investment problem varies materially among companies. The company with small assets often can make sufficient investments of the proper character in

local securities where the values of the properties and the characters of the enterprises are known. The investment problem, however, becomes increasingly complex and difficult as the assets increase. Larger assets necessarily mean a wider field and a broader classification of investments.

Present-day life insurance has developed to such an extent that many companies have an enormous amount of funds for which investments are sought far from home and in many different securities. This fact becomes impressive when it is realized that there were, at the close of 1925, thirteen United States companies each with assets in excess of $200,000,000 and that the aggregate assets of all United States companies were then equivalent to an average of $37,000,000 per company. Several companies have investments in practically every state of the Union and practically every company goes beyond the borders of its home state to invest part of its assets.

Companies that invest widely must of necessity maintain efficient investment departments manned by competent experts in all lines of investment. Accurate information as to the prevailing economic and financial conditions in different industries and enterprises and in different parts of the country must be constantly at hand. Field investment organizations, or representatives, often are necessary to study conditions, place loans, collect interest, and otherwise protect the company's investments. Knowledge must be had as to general trends in the money market and reasonably accurate market forecasts must be made to enable the company to best meet its investment

problems and thereby serve its policyholders to greatest advantage.

State Regulation of Investments

Life insurance companies safely and wisely invest the enormous accumulations which they hold in trust for their policyholders. Judged by past investment experience as well as by the present practices of the companies, life insurance policyholders are justified in their belief that the investment of their savings will be amply safeguarded and that the income yield will be as large as is consistent with safety.

Furthermore, various states have enacted laws regulating, in one way or another, the investment of life insurance funds with a view to the protection of the interests of the policyholders. These laws specify certain authorized types of securities and prohibit investment in certain other classes. The motives underlying these laws are to protect the funds by permitting the companies to place their accumulations only in sound and conservative securities.

First mortgage loans on unencumbered real estate, both farm and city, are generally recognized as legal investments. Such loans, however, are restricted in most states to a certain proportion of the value of the property, usually 50 per cent, but ranging in different states as low as 40 per cent and as high as 70 per cent. Real estate holdings usually are limited to such property as is needed for the accommodation of the business, to such property as is anticipated will be needed for expansion in business, and to such property, temporarily held, as has been acquired in fore-

closure proceedings or otherwise to protect investments.

Bonds and other securities of the Federal Government and, with certain limitations, obligations of foreign countries and their subdivisions as well as of the states, counties and municipalities in the United States, are generally recognized as legal investments. Corporate bonds, also, when meeting specified requirements, come within the provisions of the investment laws of the various states. The holding of corporate stock is permitted in some states and prohibited in others. Policy loans are limited to the surrender values and are secured by the policy reserves. Collateral loans, when made, are limited to loans against securities which are proper as direct investments. Recent tendencies, indicated by enactments in a few states, are to make bankers' acceptances and also bonds issued under authority of the Federal Farm Loan Act, legal investments. Investment laws of some states prohibit underwritings, regulate investment machinery, and cover a multitude of other matters.

Class Distribution of Investments

The growth, by classes, of life insurance assets during the twenty years ending with 1926 as well as the relative importance of the different classes of investments at the beginning and at the end of this period is shown by data of fifty-two companies reproduced from the Proceedings of the 1926 Convention of the Association of Life Insurance Presidents. (See Table XV and Charts D and E.) Indicative of the representative character of these figures, it should be

pointed out that these companies held 98.3 per cent of the assets of all life insurance companies in 1906 and 92.4 per cent in 1926.

TABLE XV

CLASSIFIED INVESTMENTS OF FIFTY-TWO LIFE INSURANCE COMPANIES*

Class	December 31, 1906		December 31, 1926†	
	Amount	Per Cent	Amount	Per Cent
MORTGAGES				
Farm	$ 268,166,000	9.3	$ 1,960,000,000	16.5
City	551,864,000	12.2	3,123,000,000	26.3
	$ 820,030,000	28.5	$ 5,083,000,000	42.8
BONDS AND STOCKS				
United States Government	2,900,000	.1	487,000,000	4.1
Domestic state, county and municipal	103,785,000	3.6	344,000,000	2.9
Canadian Government ‡	22,214,000	.8	261,000,000	2.2
Other foreign governments ‡	64,997,000	2.3	24,000,000	.2
Railroad	1,001,728,000	34.8	2,435,000,000	20.5
Public utility	134,056,000	4.7	819,000,000	6.9
Other corporate	107,777,000	3.7	166,000,000	1.4
	$1,437,457,000	50.0	$ 4,536,000,000	38.2
OTHER ADMITTED ASSETS				
Policy loans and premium notes	254,721,000	8.9	1,437,000,000	12.1
Real estate	156,442,000	5.4	214,000,000	1.8
Collateral loans	51,678,000	1.8	15,000,000	.1
Cash	65,012,000	2.3	100,000,000	.9
Miscellaneous	90,485,000	3.1	491,000,000	4.1
	$ 618,338,000	21.5	$ 2,257,000,000	19.0
TOTAL ADMITTED ASSETS	$2,875,825,000	100.0	$11,876,000,000	100.0

* These companies at the end of 1906 held 98.3 per cent, and at the end of 1926, 92.4 per cent, of the assets of all United States legal reserve companies

† Estimates based on actual figures as of September 30, 1926.

‡ Including securities of major and minor political subdivisions.

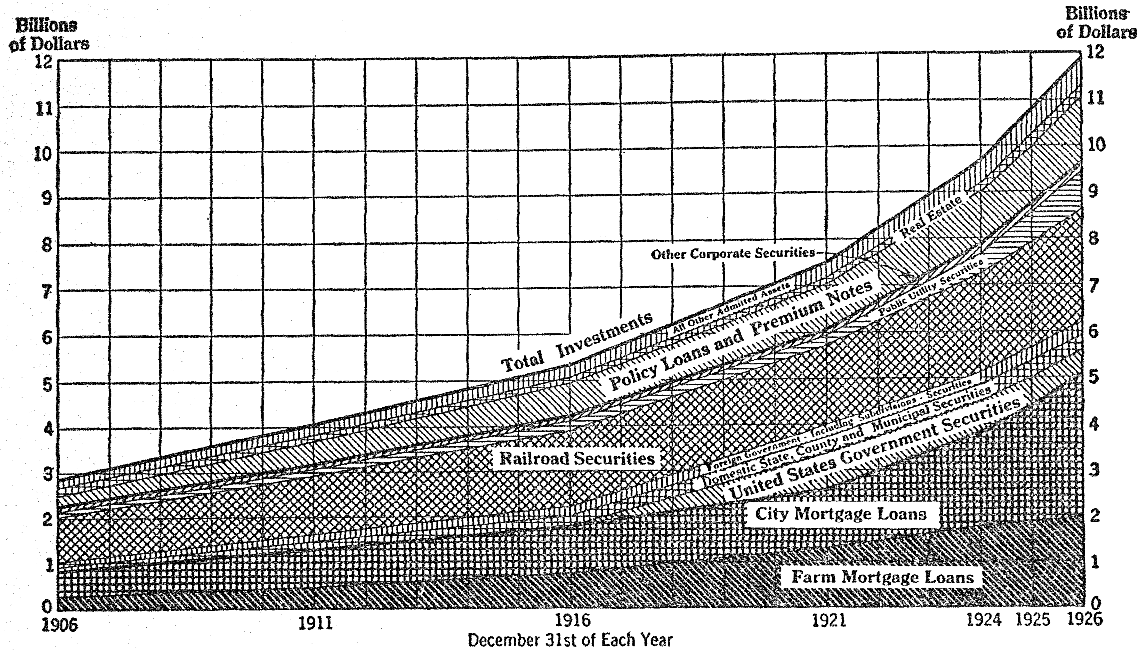


CHART D.—ABSOLUTE GROWTH OF LIFE INSURANCE ASSETS, 1906-1926

(Companies Holding from 92.4 Per Cent to 98.3 Per Cent of the Assets of All United States Legal Reserve Companies)

These data dramatically illustrate the remarkable responsiveness of life insurance investments to the changing capital requirements of the nation. A review of the investment history of the life insurance business for these twenty years vividly portrays the manner in which the life companies have met their opportunity for public and private service.

The aggregate assets of these companies expanded during this twenty-year span from \$2,876,000,000 to \$11,876,000,000, a gain of \$9,000,000,000, or 313 per cent. On December 31, 1926, the total was over four times its amount at the close of 1906. In 1906, the greatest percentage of life insurance funds was invested in railroad securities. The decline in the relative demand of railroads for new capital has resulted in their securities now taking second place. The increasing demands for credit by the farmer and the city builder have brought mortgage loans to the forefront with the highest ratio to total investments in 1926. The credit demands of the Government during the War, and the accompanying decline in city building, caused a rapid expansion of investments in Federal securities and a slowing up of investments in city mortgages. With the close of the War, there was a decline in the volume of Federal Government securities issued, but there immediately arose the great need for capital with which to finance the enormous building program necessary to relieve the nation-wide housing shortage. Life insurance funds were immediately diverted to this field. Likewise, the rapid and continuing expansion of public utilities has resulted in an increasing flow of life insurance funds to the aid of such enterprises.

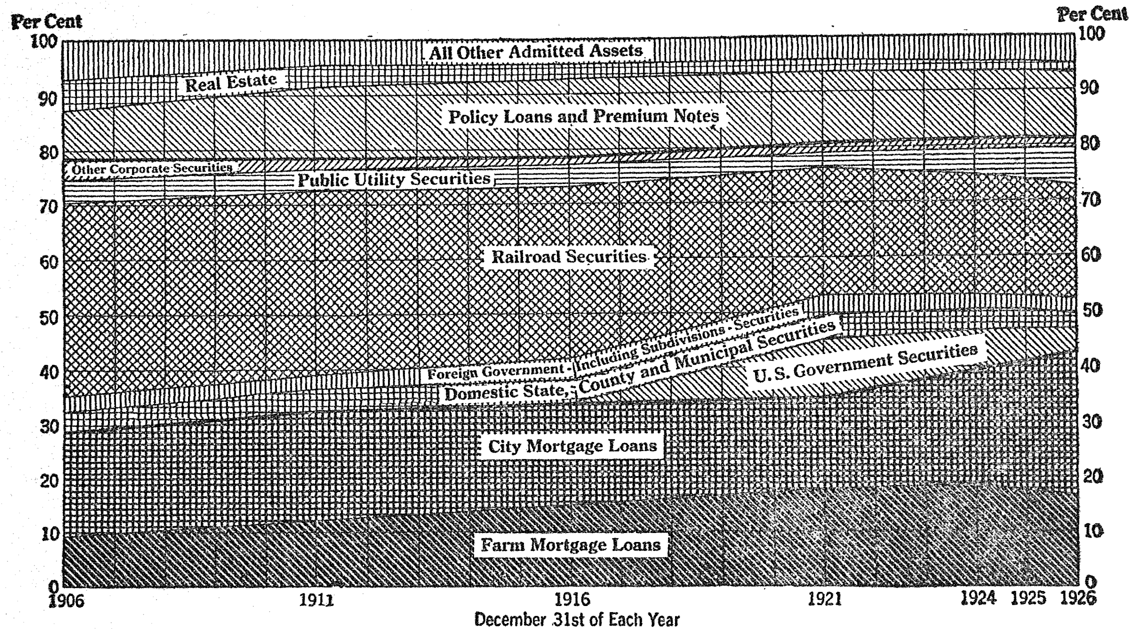


CHART E.—RELATIVE GROWTH OF LIFE INSURANCE ASSETS, 1906-1926

(Companies Holding from 92.4 Per Cent to 98.3 Per Cent of the Assets of All United States Legal Reserve Companies)

Mortgage Loans

This class of securities consists of loans on farm properties and on other, chiefly city and town, properties. Mortgage loans constitute the largest general class of investments, amounting on December 31, 1926, to $5,083,000,000. Contrast this with such investments at the close of 1906, amounting to $820,000,000. There was an absolute gain of $4,263,000,000, and a relative gain of 520 per cent, whereas the relative gain of all assets was 313 per cent. In other words, the ratio of all assets invested in mortgage loans was 42.8 per cent—over two-fifths—in 1926 as against 28.5 per cent less than three-tenths—in 1906. Accordingly, there was a substantial trend toward real estate mortgage loans in the investment practices of the life companies during this period. The aggregate of such investments, in fact, is equivalent to between 2 and 3 per cent of the estimated value, nearly $200,000,000,000, of all the real estate of the United States.

Farm Loans.—Mortgage loans on farm properties increased from $268,000,000 in 1906 to $1,960,000,000 in 1926, or from 9.3 per cent to 16.5 per cent of the admitted assets of these companies. During the first fifteen years of this period the volume and value of agricultural production and the value of farm properties in the United States were generally increasing. The rate of this growth was materially increased by the heavy demand on this country for products of the farm and the higher price level resulting from conditions attending the World War. But there was a precipitate decline in agricultural values as a result of

the depression beginning in 1920. The life insurance companies, however, continued their investments in farm loans not only in larger amounts, but also in an increasing ratio of their assets until, in 1921, 17.7 per cent and, in 1924, 18.7 per cent of their assets were so invested. By the end of 1926, the amount of such loans had further expanded to $1,960,000,000 although the ratio of the assets so invested had declined to 16.5 per cent.

At the close of 1921, the total farm indebtedness of the United States was approximately $12,800,000,000. By the end of 1926, it had declined to about $12,250,000,000. Yet, during this period, while the total farm indebtedness was reduced by $550,000,000, loans of these fifty-two life insurance companies to farmers increased by $638,000,000. It appears that all life insurance companies carried, as mortgage loans, on December 31, 1926, over one-sixth of the total farm indebtedness of the United States. If farm-mortgage indebtedness alone were considered, the proportion carried by the life companies probably would have exceeded one-fifth. Again, we find that the total value of farm lands and buildings in the United States at the close of 1921 was $54,000,000,000, and that life insurance farm loans were $1,322,000,000, 2.4 per cent of the value of such property. The value of farm lands and buildings by the close of 1926 had declined to $49,000,000,000, while life insurance farm loans had increased to $1,960,000,000, or 4.1 per cent of the value of such property.

The aid thus rendered by life insurance to agriculture, America's greatest industry, has been marked in

volume and of long duration. This method of financing has enabled innumerable individuals to procure and develop lands and equip farms with modern implements and has been of great assistance in the promotion and development of agriculture in this country. Life insurance funds, in an unusually effective manner, are thus rendering material assistance in feeding and clothing the 118,000,000 inhabitants of the United States and in such wise are seen to be a powerful factor conducive to the good of humanity.

City Loans.—One of the striking features of the recent trends in life insurance investments is that, parallel with the decline in farm values, enormous amounts of money have been supplied to meet the demand caused by the unprecedented urban building activity.

Mortgage loans on city properties by the companies whose statistics are under consideration, at the close of December, 1926, had reached $3,123,000,000—26.3 per cent of the entire admitted assets—having increased after 1906 from $552,000,000—19.2 per cent of the assets. This was an absolute gain of $2,571,000,000, or a relative gain of 466 per cent. At the end of 1921, city loans of these companies amounted to $1,252,000,000, whereas, at the end of 1926, they were $3,123,000,000. During these five years they gained $1,871,000,000, or 149 per cent.

By means of such loans life insurance has afforded material aid toward the relief of the recent acute housing shortage and has done much to provide adequate and modern homes and business structures needed for our gradually expanding population. The

construction of thousands of private dwellings, as well as of numerous apartments, hotels, office buildings, and commercial business structures, frequently requiring large sums not elsewhere obtainable, has been made possible by these loans.

Life insurance funds are thus seen at work improving, in an economic and social way, living and working conditions throughout the country. Modern convenience and ever advancing improvements have become available to vast numbers of our people, largely through the medium of life insurance funds. These mortgage investments indicate the great extent to which life insurance funds are returned as direct benefits to the people from whose savings such funds are derived. The financing of agriculture not only benefits the individual farmer, but also serves the greatest basic industry of our nation. In supplying funds with which to speed building operations in our cities, both the city dweller and the farmer are helped. The city dweller is afforded necessary housing and labor is given employment. The farmers are further benefited because the employment of so many people in building operations aids the market for farm products.

Bonds and Stocks

The second largest general class of life insurance investments is bonds and stocks. This class comprises Federal, state, county, municipal, and township bonds of the United States; public obligations of foreign countries and their subdivisions; and the securities, mostly bonds, of railroads, public utilities, banks, and

industrial enterprises. On December 31, 1926, the bonds and stocks held by these companies aggregated $4,536,000,000 as against $1,437,000,000 in 1906, an absolute gain of $3,099,000,000 or a relative gain of 216 per cent. However, the portion of total admitted assets invested in these issues dropped to 38.2 per cent in 1926 from 50.0 per cent in 1906. At the close of 1906 these securities constituted the largest of the general classes of investments, comprising one-half of the entire admitted assets. Twenty years later, they comprised less than two-fifths of the total assets and ranked in total volume slightly less than mortgage loans. Such securities have the dual advantage of ready convertibility and continuity of investment if held to maturity. Many sources of reliable information regarding bonds and stocks are available, so that data needed by investors, in judging the investment value of any particular security, may readily be obtained.

United States Government Securities.—The prompt response of life insurance companies to national needs is forcefully illustrated by the investment in obligations of the Federal Government. The amount of such securities held by the companies in 1906 was negligible. This condition continued until the outbreak of the World War. Prior to that time, the national debt was relatively small and there was no difficulty in marketing United States bonds. Government securities, from the standpoint of earning, did not constitute an attractive avenue for the investment of policyholders' funds. With the outbreak of the War came the unprecedented financial needs of the Federal

Government and the corresponding response by life insurance companies. The 52 companies rapidly expanded their holdings of these obligations and by the close of 1922 had so invested a total of $821,000,000. Thereafter, their investments in these securities declined year by year and had dropped to $487,000,000 by the end of 1926.

In relation to the total assets, the ratio of United States Government securities was less than one-tenth of one per cent in 1916 but increased to its maximum of 11.5 per cent by 1919. This was the largest increase in any class of securities during a similar period of the twenty years under review. The ratio declined to 10.7 per cent by 1921 and still further to 4.1 per cent by 1926, illustrating the barometric response of life insurance companies to changing conditions. With peace, the Government's demand for new financing practically ceased.

State, County, and Municipal Securities.—The lesser political subdivisions of the country also have been heavy borrowers from the life insurance companies. The aggregate of credit extended to state, county, and municipal governments by these companies amounted to $344,000,000 on December 31, 1926, having increased from $104,000,000 at the close of 1906. Thus substantial aid has been rendered in financing the construction of schools and other public institutions as well as local improvements such as sewers, highways, and streets. Again, we see life insurance funds providing ways and means for promoting and enhancing the public welfare in works of peaceful utility.

Foreign Government Securities.—The amount invested by these companies in the public obligations of Canada and its subdivisions was $261,000,000 on December 31, 1926, having increased from $22,000,000 at the close of 1906. The sum in 1926 was twelve times that of the earlier period. The ratio of the total admitted assets invested in these Canadian public securities had increased to 2.2 per cent in 1926 from four-fifths of one per cent in 1906. Quite a different picture is shown with respect to the securities of other foreign governments. Such investments on December 31, 1926, amounted to $24,000,000, which was only one-fifth of one per cent of the admitted assets. The amount so invested at the close of 1906 was $65,000,000, 2.3 per cent of the total assets. This represents a decrease of $41,000,000.

Railroad Securities.—The aggregate of railroad securities, chiefly bonds, held by these companies, on December 31, 1926, was $2,435,000,000; while at the close of 1906 the amount of such securities was $1,002,000,000. Notwithstanding this substantial increase of $1,433,000,000, or 143 per cent, the percentage of the total funds of the companies invested in this particular class of securities had dropped to 20.5 per cent on December 31, 1926, from 34.8 per cent at the close of 1906.

Although life insurance investments in railroad securities have not kept pace with the increase in the total assets of the companies, they have exceeded the indicated need for new funds. The aggregate investments of life insurance companies in railroad securities increased 143 per cent during this twenty-year

period while the total funded indebtedness of the railroads of the country increased during the same period only 95 per cent.

The contribution made by the life insurance companies toward financing the transportation system of this country has been large. Their accumulations always have been one of the main sources to which the railroads have turned when in need of funds for legitimate financing of existing properties and for the promotion of new lines. These investments in railroad securities do not appear, to the unthinking, to affect so materially the economic and social welfare of the people and communities as do the investments in farm and city mortgages. The benefits derived by the people at large, however, are equally real, because ample and efficient transportation facilities are a vital necessity of our modern civilization.

Present-day America owes its remarkable commercial, industrial, and social progress largely to the thoroughness and efficiency with which the railroads have functioned. The network of railroads, traversing the nation, has broken the force of the once formidable barrier, distance, resulting in an intimate linking of all parts of the country so that man now lives in a more compact social unit. It is noteworthy that the vast benefits of transportation and communication enjoyed by the individuals of this country have been materially advanced through the thrift of individual policyholders. Their savings have been brought together through life insurance companies whose concerted action has contributed much to this remarkable growth in public service.

Public Utility Securities.—A more recent application of life insurance funds to the advancement of general economic and social welfare has been in the expanding field of public utilities. Of the rapidly increasing millions now annually expended upon the development of installations for the supply of power, light, and heat by gas and electricity, for telephones, and other public services to homes and manufacturers, many millions are being supplied from the accumulations of policyholders. At the end of 1906, the fifty-two companies had invested $134,000,000 in these securities, or 4.7 per cent of their assets, and at the close of 1926, $819,000,000, or 6.9 per cent of their assets. In twenty years, this class of securities increased $685,000,000, or over five times. Such an increase, in fact, is perhaps the most outstanding feature in the recent investment trend of American life insurance companies.

As illustrating the direct benefit to the individual of these public service developments, it is noteworthy that about 17,000,000 homes and 250,000 farms in the United States had the advantage of electric power for lighting and other purposes at the end of 1926. This great modern convenience has been extended to practically all of these families since 1906. Over 8,000,000 families secured electric service during the last five years of this period. In the State of New York over 2,000,000 homes and in Pennsylvania about 1,400,000 homes at the close of 1926 were connected with service lines of the different electric light and power companies. At that time, telephones were installed in nearly 12,000,000 homes, giving to over two-fifths of our

people the advantage of this means of rapid communication. The public utilities are constantly and rapidly extending these great services to the people.

Industrial and Banking Securities.—Other bonds and stocks, chiefly corporate securities of industrial and banking companies, were held by these companies on December 31, 1926, to the extent of $166,000,000, 1.4 per cent of the entire admitted assets. The amount of these investments at the end of 1906 was $108,000,000, 3.7 per cent of such assets.

Other Admitted Assets

This general class, "other admitted assets," comprises policy loans and premium notes, real estate, collateral loans, cash, and miscellaneous assets. Life insurance funds so classified amounted on December 31, 1926, to $2,257,000,000, 19.0 per cent of the admitted assets, whereas the amount at the close of 1906 was $618,000,000, or 21.5 per cent of the assets. This was an absolute gain of $1,639,000,000 or a relative gain of 265 per cent.

Policy Loans.—Policyholders have, by the terms of their contracts, the privilege of borrowing on their policies up to the amount of the cash surrender values thereof. The amount of this class of investments, therefore, is not controlled by the investment officials of the companies. It responds automatically to the demands of policyholders and is limited only by the aggregate accumulated surrender values of their policies. At the end of December, 1926, the total of such loans was $1,437,000,000, 12.1 per cent of the admitted assets, whereas at the end of 1906 the amount was

$255,000,000, 8.9 per cent of the admitted assets of the companies. This privilege affords the policyholder an easy means of securing needed funds at a fair and reasonable rate of interest. In times of depression with its attendant unemployment, policyholders often find it of great convenience to be able to secure much-needed funds to tide them over periods when the earning power of the individual is partially or entirely cut off. The companies, however, generally do not encourage such loans, as unpaid loans reduce the amount received by the policyholder or beneficiary at the maturity of the policy and, therefore, defeat, in part, the object for which the insurance was procured.

Real Estate Holdings.—Real estate holdings on December 31, 1926 amounted to $214,000,000, 1.8 per cent of the entire admitted assets, while at the close of 1906 the amount was $156,000,000, 5.4 per cent of such assets. This was an absolute increase of $58,000,000, or a relative increase of 37 per cent. The ratio of total admitted assets so invested in 1926 was only one-third of that in 1906. These real estate investments embrace principally home-office and branch-office buildings needed for the present accommodation of the companies or held in anticipation of future increases in office requirements. Properties, temporarily held, which have been bought in on mortgage foreclosure to avoid loss also are included.

Collateral Loans.—Collateral loans on December 31, 1926, amounted to $15,000,000, one-tenth of one per cent of the admitted assets, whereas at the close of 1906 such investments amounted to $52,000,000, 1.8 per cent of the assets. This was a decrease of $37,000,000.

These investments consist of loans made on the assignment of securities eligible for direct investment such as corporate or government bonds. For the temporary employment of funds, collateral loans combine the safety of ownership of the underlying securities with a rate of return usually higher than that obtainable from banking institutions on corresponding time deposits.

Cash.—The amount of cash held in the home and branch offices and deposited in banks and trust companies by these companies on December 31, 1926, was $100,000,000, whereas the amount so held at the close of 1906 was $65,000,000. This was an absolute increase of $35,000,000, but the ratio of total assets held in cash dropped during this period from 2.3 per cent to less than 1 per cent. This lesser proportion of the assets held in cash is to the advantage of the companies as a smaller amount, therefore, is held without interest or at a comparatively low rate of interest. The present-day operation of life insurance companies does not necessitate the holding of a large volume of assets in the form of cash, since the current income usually will care for current disbursements.

Miscellaneous Assets.—The group of assets termed miscellaneous consists of bills receivable, agents' balances, branch-office debit balances, and items representing the non-ledger assets less assets not admitted. These assets amounted on December 31, 1926, to $491,000,000, 4.1 per cent of the assets, whereas the amount so held at the end of 1906 was $90,000,000, 3.1 per cent of the assets. This was an absolute increase of $401,000,000.

Geographical Distribution of Investments

The distribution of life insurance investments throughout the United States in relation to the origin of the money can be seen by contrasting the amount of investments and the amount of reserves by geographic divisions. (See Table XVI and Chart F.) At

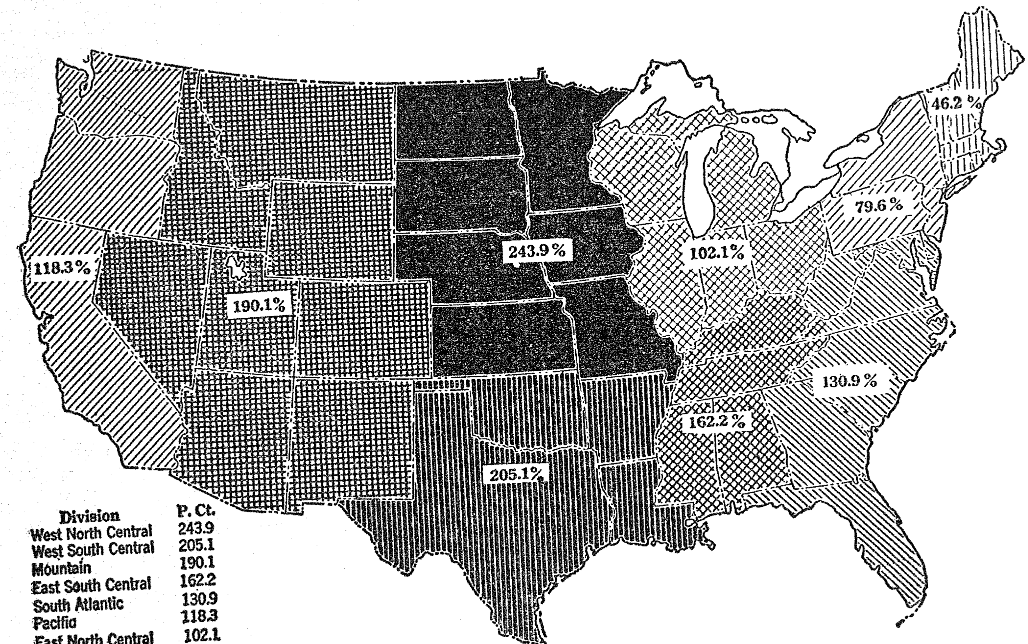
TABLE XVI

RELATION OF INVESTMENTS TO RESERVES, DECEMBER 31, 1925*

Division	Investments	Reserves	Ratio in Per Cent
New England	$ 395.817,000	$ 857,082,000	46.2
Middle Atlantic	2,376,714,000	2,986,386,000	79.6
East North Central	1,937,961,000	1,898.552.000	102.1
West North Central	2,027,695,000	831,497,000	243.9
South Atlantic	973,759,000	743,727,000	130.9
East South Central	580,441,000	357,839,000	162.2
West South Central	629,718,000	307,007,000	205.1
Mountain	332,734,000	175,046,000	190.1
Pacific	588,542,000	497,335,000	118.3
Territories and possessions	2,945,000	11,172,000	26.4
United States	$ 9,846,326,000	$8,665,643,000	113.6
Canada	352,283,000	190,538,000	184.9
Other foreign	56,784,000	68,572,000	82.8
Miscellaneous	441,190,000	9,003,000	
TOTAL	$10,696,583,000	$8,933,756,000	119.7

* The same fifty-two companies included in Table XV.

the close of 1925, the proportion of reserves invested were, by divisions, according to rank: West North Central, 244 per cent; West South Central, 205 per cent; Mountain, 190 per cent; East South Central, 162 per cent; South Atlantic, 131 per cent; Pacific, 118 per cent; and East North Central, 102 per cent. All of these divisions had more life insurance investments



Division	P. Ct.
West North Central	243.9
West South Central	205.1
Mountain	190.1
East South Central	162.2
South Atlantic	130.9
Pacific	118.3
East North Central	102.1
Middle Atlantic	79.6
New England	46.2

CHART F.—RATIO OF INVESTMENTS TO RESERVES, DECEMBER 31, 1925
(Companies Holding 92.4 Per Cent of the Assets of All United States Legal Reserve Companies)

than they contributed through their amounts of reserves to the aggregate life insurance reservoir. The only sections having less investments than the amounts of their reserves were the Middle Atlantic, with 80 per cent, and the New England states, with 46 per cent.

It is evident, from the foregoing, that a vast volume of money originating with the policyholders of the Middle Atlantic and the New England states has been going to the western and southern parts of the country, where funds have been needed to finance the development of the farming industry, the construction of homes, buildings and improvements, and many industrial and commercial enterprises. The marked progress and development during recent years in the southern and western parts of the country have been aided materially by the financial assistance extended in this way by the eastern part of the country through the medium of life insurance. While southern and western sections have been rendered assistance through the help of life insurance funds, the policyholders of the North and East also have been materially benefited as the companies have been afforded a channel through which to invest their funds at a profitable rate of interest. This has been a relationship of mutual advantage to the borrower and the lender.

The funds of life insurance are thus seen to be a potent factor in our social and economic life. The commercial and industrial progress and development of America, during recent years, has brought forth a complicated financial system which has operated

largely by means of credit extension. These funds of life insurance companies have been flowing, year by year, into the channels of commerce and industry and have been meeting these heavy demands for credit in an unusually effective manner. On one hand, the investments have benefited the policyholders in that the funds held in trust have been safely and judiciously invested to return fair and reasonable rates of interest. On the other hand, such investments have supplied needed aid to all the productive industries and essential enterprises of the nation.

CHAPTER X

SOCIAL PROBLEMS OF LIFE INSURANCE TAXATION

> *Life insurance is a protection. It is not bought for pecuniary gain It ought to be cheapened and made easier Instead of laying burdens on it, the Government ought to exempt it and the companies writing it from taxation . . . Life insurance is a device by which such defaults may be avoided, a process by which society may be relieved of what ultimately may be a public burden.*
> —SENATOR SHERMAN in the United States Senate, August 27, 1913

It is fitting that so individualistic a country as the United States should have such a vast amount of life insurance carried by individuals for the protection of their families and themselves, while abroad similar protection is either left largely to the State or else neglected altogether. On the other hand, it seems inconsistent that the life insurance in individualistic America should be highly taxed by the State while abroad it is comparatively free of taxation. Here we penalize what other countries encourage. It is a paradox to have poor taxes and life insurance taxes existing side by side; the one levied to care for those who have been left destitute, often by those who did not insure, the other to penalize those thrifty individuals who assumed their liabilities by life insurance protection.

Life Insurance Protects Losses

Any tax on life insurance funds seems economically unsound since life insurance is but a scientific method of distributing certain death losses among a large number of people. The effect of such a tax is to discourage such protection and thereby cause losses to be more heavily felt. A tax should theoretically arise out of some gain or profit through the use of some property or right in the creation of wealth; it should fall upon gain, not loss; on money spent rather than upon thrift. Even the funds accumulated as reserves by insurance companies are but set aside to cover the losses that ultimately will occur if all the policies they cover remain in force until terminated by death or maturity. However, taxes of one kind or another on life insurance exist in 47 states and the District of Columbia, so it seems well to first briefly consider their extent and kind before suggesting what remedies are feasible and possible of achievement in the near future.

The Purpose of State Taxes

The original purpose of state taxation on insurance was to maintain insurance departments to supervise the insurance business, since it is carried on almost exclusively in this country by private companies, fraternal associations, and voluntary associations. When properly administered, state supervision inspires public confidence, insures equitable treatment of policyholders, and safeguards sound underwriting.[1]

[1] Insurance Department, Chamber of Commerce of the United States, "Supervision and Regulation of Insurance," Insurance Bulletin No. 28, p. 1.

However, with greatly increased demands for public improvements, more and more revenue has become increasingly necessary for state purposes. The rapid growth of life insurance itself brought in large taxes under old rates and doubtlessly thereby suggested higher rates and additional taxes, until now insurance companies are paying the largest portion of their taxes for general revenue purposes of the state. It is estimated that but 3.65 per cent of special insurance taxes now goes for service to policyholders in the form of state supervision, while the other 96.35 per cent goes for general state purposes.[2]

Many frequently appear to lose sight of the fact that life insurance is a social and economic institution and not a mere commercial enterprise. There seems to be a tendency to tax life insurance the same as any mercantile or other profit-making business, with the belief that the companies and their officers bear the burden. Such an understanding is far from correct. Any tax on insurance must eventually fall upon policyholders.

Legislatures, however, are pressed on all sides for appropriations and are more concerned with the very practical question as to where to get the needed funds than a consideration of the fairest system of taxation for the ultimate public good. They often answer the pressure of the most dominant groups of voters even above the recommendations of the able tax commissions they sometimes appoint to study tax problems

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[2] *Ibid.*, "Hidden Taxes in Your Premiums," Insurance Bulletin No. 26, p. 2.

of the state. In tax measures, it is often a case of "plucking the goose which does the least squawking" and, unfortunately, the sixty million policyholders of insurance companies do not "squawk" together. Most of them do not even realize that a tax on life insurance falls directly upon them, but think of it being borne by some vague, distant company.

Kinds of Life Insurance Taxes

Life insurance taxes might be classified roughly as general and special taxes. The first class includes all taxes to which other forms of business organization are subjected, such as real and personal property taxes, Federal and state taxes, entrance or incorporation fees, and capital stock taxes. There is little objection to these taxes, although it seems that life insurance companies might well be favored in this respect since life insurance reduces future taxes for carrying on public charity work. Special taxes on insurance, however, are the more indefensible since they are not only discriminatory as a class against life insurance corporations and their great body of policyholders, but are also in themselves exorbitant and unreasonable.

Special State Insurance Taxes

Special state insurance taxes are of the following kinds:

1. Premium taxes
2. License taxes (company tax)
3. Fee for filing annual statement
4. Agents' license fees
5. Charge for company examinations

6. Local taxes (other than property)
7. Retaliatory taxes, fees, and so forth
8. Reciprocal taxation

1. *Premium Taxes.*—Probably the most unjust special tax is the premium tax.[3] The percentage collected varies. In some states it is based upon the gross premiums collected; in a number of others, it is based upon the gross premiums less dividends or refunds and reinsurance premiums; while in still others, the amount on which the taxes will be levied is determined in ways different from either of these. In many states there has recently been a commendable tendency to permit the deduction of losses paid.

When refunded parts of premiums, or so-called and misnamed "dividends," to policyholders are not deducted, a tax has been placed upon funds which are not used for providing protection and which actually belong to the policyholder. Since a great many policyholders deduct such refunds from their premium remittances and pay only the net premium, such a tax is a levy upon premiums never paid.

A tax upon the gross premiums of an insurance company is similar in effect to a tax upon the gross receipts of any other business. To be comparable, such a tax on industrial plants or mercantile establishments would be one on their gross sales. A tax on the gross sales of a business or on the average deposits in a bank, however, would doubtlessly result in a wave of protest; yet a premium tax on insurance is just as real, though

[3] *Ibid.*, "Special State Insurance Taxes," Insurance Bulletin No. 12, pp. 1, 3, 4.

not so apparent. Furthermore, the premium tax is inequitable.[4]

(*a*) As between Policyholders.—Since this tax is levied upon premiums, it is evident that the premium paid by a life insurance policyholder having one of the higher premium forms of policies, such as an endowment, or a policy taken out at a later age, is subject to a greater tax. For example, we find by using the rates of one life insurance company that its premium on an ordinary life policy issued to a man aged forty-seven would be subject to over twice as much tax as its premium on a similar policy issued to a man aged twenty-five, because the annual premium is a little more than double for the older age. There is also an economic injustice, because the earnings of the average man nearing sixty are on the down grade and he is not so able to pay the same, much less an increased, tax. No other form of tax is levied so as to be dependent upon age, and there seems to be no justification for a form of taxation which has such an effect. A bill frankly labeled "a bill to tax the aged" would arouse a storm of protest, yet this is the effect of present laws of this type.

Because of the extra mortality of industrial policyholders and the heavier expense loading necessary to meet the cost of collecting premiums, the premium rate is higher for industrial than for ordinary insurance. In view of the fact that taxes are based on premiums, industrial policyholders as a class consequently pay a greater amount of tax in relation to the

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[4] *Ibid.*, pp. 3, 4.

amount of insurance than do the holders of ordinary policies. Thus the individual who is most in need of insurance but must carry it on a weekly payment plan, because of his financial circumstances, is penalized by the state.

(*b*) As between Policyholders in Different States.—When different states charge varying rates on premiums collected by life insurance companies within their borders, the policyholders in states with lower rates of tax must contribute to the taxes in states where rates are higher. Thus a policyholder in a state charging a premium tax of 1 per cent bears an added cost to his insurance because a neighboring state charges a 2 per cent tax on the business of his company transacted therein, the second state thereby raising the general expenses of the company and increasing the cost of insurance.

2. *License Taxes.*—In many states each company is required to pay an annual license tax before it can operate. Life insurance is a national, not a local, enterprise and most of the business is done by companies operating in many different states and, therefore, paying many kinds of taxes, licenses, and fees.

In addition to these taxes, individual annual license fees must be paid for the individual agents or representatives of such companies before they can transact business in the respective states. The company is charged for permission to transact business in a given state and then its agents are forbidden to do business unless they, too, pay an additional tax. Thus there results what in effect is double taxation for the same purpose.

3. *Fee for Filing Annual Statement.*—In 1926 most states levied such fees which ranged from small amounts to as high as one hundred dollars. The multiplicity of forms which insurance companies are required to fill out for the various state authorities greatly adds to the administrative expenses, as they are often compelled to employ specialists trained in the requirements of the various insurance departments. These must ultimately be paid by policyholders. For instance, some states require handwritten annual statements to be filed, while others accept printed ones.

4. *Agents' License Fees.*—Agents' license fees in 1926 were also levied in most states, the regulations differing in various states. In some the agent or representative of the company pays a fee ranging between one dollar and ten dollars a year, while one state charges a special or general agent of a life insurance company an annual license fee of one hundred dollars. The practice of imposing an annual license fee is extending to insurance brokers, for whom the fee is very high.[5]

5. *Charge for Company Examinations.*—It is to the interest of policyholders in any state that every insurance company doing business within its borders shall fully comply with all insurance laws. It, therefore, logically follows that the insurance commissioner of the state should be empowered to examine a company any time he has cause to believe that conditions warrant it. The expense of such examinations, of

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[5] *Ibid.*, p. 4.

course, falls upon the companies and in turn upon their policyholders.

6. *Local Taxes (Other Than Property)*.—Not only state governments, but smaller civil jurisdictions in some states, have the power of assessing taxes and fees upon life insurance companies. Thus in addition to various states taxes, licenses, and fees in some states, life insurance companies must pay taxes to counties and even cities aside from their property obligations. There were fourteen states last year in which smaller jurisdictions than state governments had the power to tax life insurance companies. It is unfortunate enough that forty-eight states and the District of Columbia should have the power of levying taxes, licenses, and fees on insurance policyholders without extending these privileges to smaller local jurisdictions.

7. *Retaliatory Taxes*.—All but six states had statutory provisions for retaliatory taxes in 1926, which applied generally to all forms of licenses, taxes, and fees. Although such taxes are designed to penalize the companies of a state where a higher rate is charged, it sometimes recoils upon companies and citizens of its own state, since its citizens may be policyholders of the company on which the tax is levied. Such provisions give the semblance of a constant tariff war between the states.[6]

Retaliatory taxes are often misunderstood by those who attempt to raise taxes upon foreign insurance companies transacting business within their particular state. They fail to see that in effect they are crippling

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[6] *Ibid.*, p. 5.

the business of domestic companies, because their premiums collected in every other state having retaliatory legislation are thereby subjected to the same rate of tax.

8. *Reciprocal Taxation.*—This is a very commendable form of legislation. Under this method any favorable treatment received by a domestic company in any other state is reciprocated and restrictions modified with respect to the companies of such other state. A state having reciprocal laws reciprocates favors shown its domestic companies by other states, and thereby encourages and assists the growth and stability of its domestic institutions. Reciprocal taxes are the direct opposite of retaliatory taxes.

Yearly Amount of Special Taxes

The gross amount of special taxes paid by policyholders has been increased each year and in 1925 amounted to $72,839,621.[7] This represented taxes on all kinds of insurance, but unfortunately the amounts are not segregated by life, fire, casualty, and the various other kinds of insurance. This sum would have enabled the country to purchase 4,800,000 ordinary life policies for $1,000 each at age twenty-five, or would have purchased $8,184,000,000 worth of fire insurance coverage for one year at the rate of eighty-nine cents per one-hundred-dollar coverage. This does not include the amount of taxes imposed by counties

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[7] Insurance Department, Chamber of Commerce of the United States, "Hidden Taxes in Your Premiums," Insurance Bulletin No. 26, p. 1.

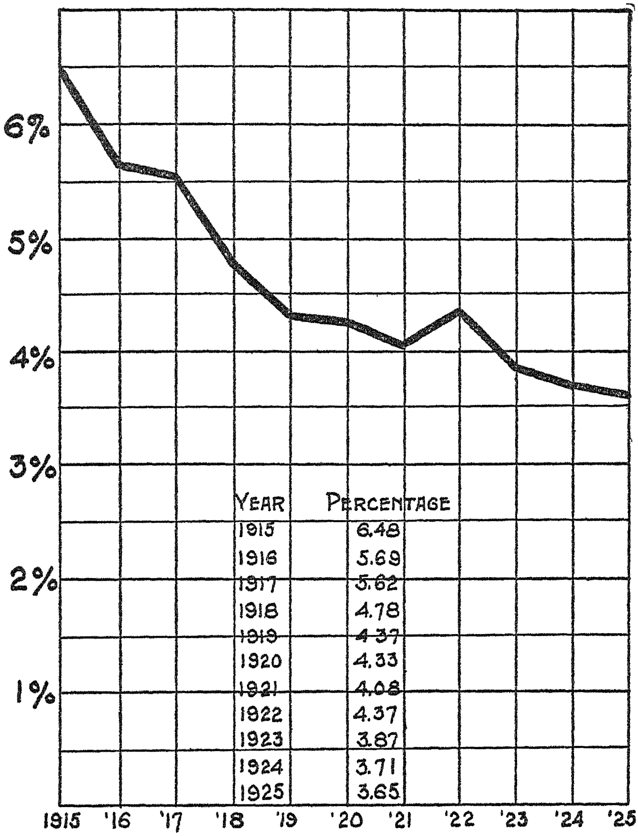

CHART G.—PERCENTAGE OF SPECIAL INSURANCE TAXES SPENT FOR SERVICE TO POLICYHOLDERS [8]

and municipalities in those states permitting such taxation.[9]

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[8] *Ibid.*, p. 2.
[9] *Ibid.*

Trend of Special Insurance Taxes

While the trend of special insurance taxes has been decidedly upward, the portion spent by the state for

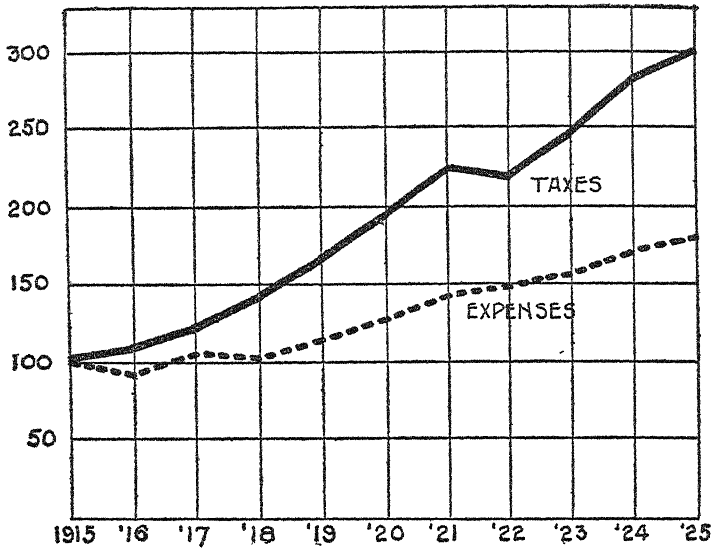

CHART H.—TREND OF SPECIAL STATE INSURANCE TAXES AND DEPARTMENTAL EXPENSES[10]

Year	Taxes	Expenses
1915	100 0	100 0
1916	106 8	93 8
1917	118.7	103.0
1918	137 2	101 1
1919	164 6	111.0
1920	191 2	127 6
1921	221.8	139.6
1922	217 8	149.2
1923	244.6	153 9
1924	277 5	167.2
1925	300.0	176.3

[10] *Ibid.*, p 3.

service to policyholders has been downward. There has been a constant decline in the latter since 1915, with the exception of the year 1922. It will readily be seen from Chart G that these special insurance taxes have proved a lucrative source of revenue for state purposes. While in 1915, 93.52 per cent went for general state purposes, in 1925, 96.35 per cent of such taxes were used for general state purposes.[11]

While it is true that insurance departmental expenses have increased within this period, their increase has been much smaller than the increase in special taxes. This is forcibly illustrated in Chart H which shows that in the eleven-year period, 1915 to 1925 inclusive, the departmental expenses increased by 76.3 per cent, while such taxes increased 200 per cent.

Evils of State Taxation

Multiple Taxation of the Same Source.—It has been pointed out that the principle of sound insurance demands that risks be distributed over a wide area. The very nature of life insurance in this country is national. Many companies transact business in practically every state of the union and there is a constant tendency for new companies to extend their operations into more states as they develop in ability to serve the public. It is distinctly to the disadvantage of American policyholders that practically every state taxes their thrift.

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[11] *Ibid.*

Violate Trust Funds.—Life insurance funds are in the nature of trust funds. They are set aside by private individuals in a coöperative scheme to be held for the use of designated beneficiaries. In effect, these multitudinous special taxes continuously eat into such trust funds. The Committee on Insurance Laws of the American Bar Association some time ago pointed this out: "It is just as dishonest to steal under the protection of a legislative enactment as without it. It is just as dishonest for a state to lay unholy hands on trust funds as for an individual to do it."

On the same score, the National Convention of State Insurance Commissioners has stated: "The State should insist on the faithful conservation of life insurance funds and their application to their intended use. It should be as reluctant itself to divert them from their intended use as to permit individuals to employ them for political purposes or in extravagance of management." [12]

Discriminatory.—All life insurance taxes are discriminatory between individual citizens, that is, between policyholders and non-policyholders. Two men having the same income may live side by side. One spends his entire income, and more if he can get credit. He lays aside nothing for future contingencies and does nothing to stabilize conditions in the community either in the present or the future. The other, by sacrifice and thrift, lays by money so that in his own old age he will not become a burden on the state nor dependent if prematurely disabled through sickness or accident. Through life insurance he provides for his

[12] National Convention State Insurance Commissioners. 1907.

family in case of his premature death and for himself in case of disability and old age. Under our present system of multiple insurance taxation, the second man must pay many taxes for his own thrift, although he is already taxing himself to save the state future taxes. The other goes on his improvident way, encouraged in his extravagance.

There is also discrimination between policyholders of legal reserve companies and those of assessment and fraternal organizations. The legal reserve companies are very closely supervised and highly taxed, while assessment and fraternal companies, on the other hand, usually pay but small taxes, if any, and are relatively free of supervision.

If most businesses were taxed upon gross sales or gross income, the rate of tax would be so high that business would be prohibitive. Some years ago it was found that a retail drug store actually paying a tax of $91 would have been compelled to pay one of $1,445 if taxed on the same basis as life insurance companies paying taxes upon gross income. A grocery store paying $70 would have had to pay $1,400, and a retail dry goods store paying $640 would have had to pay $7,729.[13] Such a rate applied indiscriminately to all business would undoubtedly raise a wave of protest that would result in the immediate repeal of such tax legislation.

The insidious evil of such special taxes is that they are hidden and, in the parlance of legislators, "painless." They are none the less injurious, however, in

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[13] Edward A. Woods, "The Taxation of Life Insurance Policyholders," p. 4.

their bad social influence. While there are a great many wealthy policyholders the average ordinary policy in force is around $2,700, and the average industrial policy, $175. Obviously, the heaviest burden falls upon the people least able to bear it.

Suggested Remedies

Subsequent to the insurance investigation in New York State in 1905, state supervision of insurance received a great impetus. While some abuses in the business were revealed, particularly in a few companies, the great social importance of the business was demonstrated at that time as well as the necessity of close supervision and scrutiny. There are probably few careful students of the situation who would not endorse close supervision, but state supervision has seemed to presume state taxation and exploitation of the business so that instead of the state looking to the interest of policyholders, it has itself committed the offense that most insurance departments were created to eliminate.

For many years, there was a movement for the Federal supervision of the insurance business and it is an open question whether or not it will be revived again. Beginning with the Great War and continuing to the present time, there has been a marked tendency for the Federal Government to take over many functions that were, until recently, the prerogatives of the states. The Interstate Commerce Commission has long been a Federal regulatory body and the Federal Trade Commission has been delving more and more into private business enterprise. Just recently the Federal Govern-

ment took over the regulations of radio activities. On the other hand, there is a countertendency on the part of the states to reassert their rights and jealously to guard their prerogatives, privileges, and rights to tax. From the social standpoint, it is highly desirable that the insurance business be supervised and taxed on a national basis, for not only is the distribution of risks a national issue, but the investments of large insurance companies are distributed throughout the entire United States. On the other hand, there are the practical considerations of state rights, chartering and taxing powers. The immediate solution seems to be rather uniform laws of state regulation, supervision, and control; and it is along these lines that the National Convention of Insurance Commissioners has been working. It would probably be some time before the states would all agree to the same rules and regulations, but any beginning is better than the present chaotic state of affairs. If Federal supervision were simply to be added to, and not substituted for, state regulation, there would be little gain.

Foreign Taxation of Life Insurance

It is interesting to contrast the taxation policy of certain foreign countries in regard to life insurance with that of the United States. The policy of the latter, we have seen, is quite inconsistent with that of its generally individualistic tendencies. In certain foreign countries, life insurance is favored with regard to taxation even when private companies compete with state insurance schemes. The taxation policy of a few of the leading countries, particularly in regard

to income taxes, are briefly indicated in the following:

Canada.—Under the income tax laws, the income of life insurance companies is totally exempted except such amounts as are credited to shareholders' accounts.[14] Thus, only those who profit through life insurance as a business have to pay a tax, so that there is no tax upon insurance itself, but rather upon the stock company as a business enterprise. The burden is placed upon the shareholders rather than upon the policyholders.

Great Britain.—Under the income tax laws of Great Britain, relief from the normal tax is granted to the taxpayer on the amount of annual premium for life insurance or deferred annuity on his own life or the life of his wife.[15] This allowance is not to reduce the income estimated for purposes of exemption or abatement, nor can it exceed one-sixth of the total income or 7 per cent of the capital insured, or £100 in all. War insurance premiums are not taken into account in calculating these limits.

France.—In France, there seems to be no tax on insurance premiums, but in the proposed changes in taxation in the budget for 1925, it was proposed that a tax of .01 centime per 1,000 francs be levied on insurance premiums. This would be a ridiculously small tax in comparison with the lowest premium tax levied in any American state.[16]

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[14] Prepared by A. Bernard, and compiled under direction of H. H. B. Meyer, Director Legislative Reference Service, Library of Congress, *Taxation of Incomes, Corporations and Inheritances in Canada, Great Britain, France, Italy, Belgium and Spain,* p. 6.

[15] *Ibid.,* p. 27.

[16] *Ibid.,* p. 122.

Italy.—The income tax allows deduction to be made for pensions and life insurance premiums in favor of the taxpayer or members of his family living with him to whom he owes support.[17]

Belgium.—Under the income tax laws, a periodical contribution to pension and insurance funds is deducted from the salary, wage, or other remuneration.[18]

Spain.—Insurance companies and any other insurance underwriters pay an annual stamp tax on policies issued by them at very small rates. For instance, the life insurance rate is 2 pesetas per 1,000 pesetas of amount collected.[19]

Germany.—At the time this book went to press, little was known of the present status of life insurance taxation in Germany, but this country furnishes a classic example of the desirability of Federal rather than state regulation of the insurance business. The Federated States of Germany furnishes an excellent example of the deleterious effects of state regulation. There, state supervision by the various state governments had put insurance on a very precarious footing, but one of the first acts of the Empire was to put insurance under federal regulation, which resulted in placing insurance interests upon very strong basis.

The German Empire in its program of expansion between its organization and the Great War was at a decided disadvantage in its economic and financial condition compared with the United States. The

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[17] *Ibid.*, p. 136.
[18] *Ibid.*, p. 183.
[19] *Ibid.*, p. 238.

problems of meeting ever increasing military, colonial, and other expenditures had left that country few resources of additional taxation. It might well have been assumed that the exigencies of the situation would have induced the government to exact the largest revenue possible in the form of taxation of life insurance companies of the Empire. However, according to the official returns during 1907, the life insurance companies, with an annual premium of over $120,000,000, paid taxes of all kinds aggregating only $300,000, or less than one-fourth of one per cent of the premium income. That same year, United States life insurance companies paid eight times as much in proportion to German companies.[20] Germany continued to favor life insurance companies with regard to taxation even after the state insurance scheme had been established.

Conclusion

It thus seems obvious that the inordinate taxation of life insurance is not only economically unsound, but socially unjust. As soon as the great mass of policyholders awaken to its evils, it will also be politically inexpedient. When this last occurs, a great many of the more odious forms of special taxation will undoubtedly quickly disappear. Finally, such taxation is discouraging to the individualistic traditions of the American people and inconsistent with the practice of enlightened governments throughout the world.

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[20] John F Dryden, address before Association of Life Insurance Presidents, December 4, 1908.

However one may point to the evils of life insurance taxation in this country, there is small chance that conditions will be improved suddenly or miraculously. The Advisory Committee of the Chamber of Commerce of the United States, which has been carefully investigating state taxation, regulation, and supervision for the last several years, recently summed up the situation in its report to the Insurance Group Session of the Chamber at its twelfth annual meeting in May, 1924:

> Special taxation should be limited to such a total as will adequately support state insurance departmental supervision. Any excess is unjust in that it is levied on only a portion of the public and is discriminatory against those who believe in thrift and protection and is wasteful in that it is obtained at a collection cost far beyond that of regular taxes. For the policyholders' benefit, these evils should be corrected. The following specific recommendations are made towards this end:
>
> I. While the Insurance Advisory Committee does not believe in the equity or justice of the present system of premium taxation, it nevertheless thinks this system may have to be continued for some time to come. In this event, the Committee believes:
>
> 1. There should be a material reduction in the amount of premium taxes collected. As indicated above, these should be limited to such a total as will adequately support the state's insurance departmental supervision.
>
> 2. Re-insurance, cash and applied dividends to policyholders' matured losses, endowment, and cash surrender values should be deducted from gross premiums before the rate of taxation is applied to the premium income.

3. The above method of taxation can be made uniform throughout the country.

II. The Insurance Advisory Committee also thinks it highly desirable to have the following taxes, licenses, and fees consolidated into a single tax:

1. License taxes
2. Taxes for filing annual statements
3. Publication fees
4. Agents' and brokers' licenses
5. Retaliatory taxes
6. Municipal licenses and taxes
7. Miscellaneous taxes

The amount of the single payments to replace the numerous state charges mentioned above should not be higher than the corresponding franchise or capital stock tax levied upon other business corporations.

III. It is recommended that the State Insurance Department be supported by appropriations from the legislature and not from the numerous types of taxes and fees, the abolishment of which has been recommended. The State Insurance Department should primarily be considered as a service organization rather than a means of revenue.

CHAPTER XI

CONCLUSION

The whole progress of civilization has been marked by attempts to eliminate hazard, fear, and uncertainty; to avoid the great catastrophes that arrest progress and retard civilization and security. Primitive man lived in constant terror of natural forces: of famine, bad weather, flood, fire, and pestilence that constantly faced him. The great convulsions of nature: earthquakes, volcanoes, tidal waves, even thunder and lightning, the hurricane and tornado, were to him manifestations of supernatural, often diabolical powers. The savage still lives in daily terror of enemies, real and fancied, and his initiative is thereby reduced, paralyzing his efforts and making progress difficult.

Later on, human forces, scarcely less to be dreaded, menaced his existence. Slavery, war, unemployment, or impossible living and working conditions; disease, vice, and the casualties of "civilization" constantly beset him, especially in the slums of our congested cities. In many nations, especially in the Orient where more than half the world lives, life is still a struggle for bare existence.

Even trade was handicapped by all kinds of hazards in the past. In the days of the Roman Empire, trade between Rome and China required a profit of

5,000 per cent to exist. Then there were no dependable systems of transportation, and caravans bringing goods from afar were subject to marauders, wars and banditry, loss by bad weather, flood, and disease. There were no systems for transmitting currency or goods such as exist to-day, and all trade was precarious.

Thus all social progress is greatly aided by stabilizing conditions, eliminating hazard, and substituting probability, if not certainty, for chance. Many forces are contributing to make better conditions. Settled political conditions, highly developed systems of transportation, intricate currency and credit facilities, the safe investment of funds, a widely diffused knowledge of supply and places of demand are all steps in this direction. One of the great modern advances is the development of insurance.

Social progress has been greatly stabilized by insurance in its many forms. In this day the Merchant of Venice would not have to contemplate ruin because one or two of his ships went down. The marine merchant of to-day covers his fleet with marine insurance and the loss of a ship or so is distributed over a vast number of people, even living in many different nations. His risk is charged off on his business each year and thus any loss affects his profits but not his solvency. As the church of Santa Maria della Salute in Venice, built upon a million piles, has stood for centuries, so the coöperation of millions of persons through the device of insurance spreads a burden that would fall with crushing effect upon one, yet has little effect when borne by a vast number of people.

The conflagration of San Francisco was borne by

policyholders of fire insurance companies scattered over the whole civilized world; the loss of the *Titanic* was shared by the policyholders of marine insurance companies, and the millions of lives lost by the influenza epidemic in 1918 was partially borne by the millions of people paying weekly, monthly, and yearly insurance premiums. English-speaking people, particularly Americans, have seized upon the device of insurance to stabilize business and the hazards of life in every direction. It was pointed out early in this book that forms of insurance at the present time cover chiefly property losses, a survey showing 169 kinds with new forms arising almost daily. Every new invention, such as the automobile and aircraft, presents some new hazard and at the same time evokes some form of insurance to provide against it. It has been estimated that America pays over six billion dollars annually [1] for various kinds of insurance protection, three and one half of which are for life insurance.

Life insurance differs from other forms of insurance in that it carries with it an element of thrift. For instance, should the estimated loss fail to occur, the reserve fund on any form of life insurance, except term, is returned to the policyholder. Thus, under ordinary forms of insurance, should the insured not die after a reasonable number of years, some of the money he has paid in, and at times even more, is returned to him or else is available as a permanent fund to provide a pension for his old age. Thus, life insurance is not wholly a cost, but generally a saving as well. Every other form of insurance, on a strict

[1] Editor's Foreword, *The Annals,* March, 1927, p 5.

accounting basis, should be charged off as an absolute expense. Life insurance, except under the term plan, is a saving if one lives, and insurance if one dies.

The social benefit of life insurance is of vast significance. It has aptly been said that life insurance is in constant warfare with poverty and ruin and ever victorious. It provides against the greatest economic catastrophe that will probably happen to any social unit, the loss of the earnings of the family head. It serves, as has been pointed out, many other purposes, supporting the family, aiding religion, education, child welfare, public health, unemployment, philanthropy, business, and providing funds for payment of taxes. It protects women and children and has a stabilizing effect upon the general finances of the country. Its object is entirely salutary. It is interested in peace, not war; in thrift, not extravagance; in health, not sickness; in wealth, not poverty; in prolonging life, not shortening it; in temperance, not intemperance; in security, not speculation; in progress, not in panics nor financial difficulties. It is most prosperous when all things work together for the prosperity of society. It is difficult to discover any factor which makes for social progress which is not helped by or does not help life insurance. It has been shown that the insured people of the country increase their interest in savings banks, in building of homes, and in making other investments.

All insurance, but especially life insurance, is an effective social force because it is primarily preventive, not merely curative. It is of the greatest value to the social agencies because it tends to eliminate the poor-

house, the home for the aged, the orphanage, the dependent. Studies carefully made both in England by royal commissions and in this country show that life insurance reduces the number of paupers and the amount of dependency with all their attendant evils.

The extensive development of life insurance has probably just begun. There are many hazards involving loss or interruption of life values still inadequately provided for by present forms of life insurance. Developing as rapidly as it is, life insurance is far behind casualty and even fire insurance. The life insurance principle is destined to expand until it covers loss of income, either temporary or permanent; whether suddenly, wholly, or finally by death, or by gradual decline with increasing age until completely and finally exhausted; whether from accident, illness, unemployment, or old age; and even a decrease in income from a variety of causes. In short, where there is any life contingency involved, it is possible to extend the life insurance principle to cover it. It is drawing toward the time when men dying will bury their debts with them, when many causes for fear and anxiety will be eliminated, and certainty be substituted in their place —certainty so far as fear of death is concerned and its effects upon one's family, or of penniless old age, unemployment, illness without funds, or children's future.

Industry is discovering that freeing the working man from various anxieties by providing group insurance in case of death or disability, workmen's compensation for illness or accident, and pensions when he is old, increases his efficiency and leaves his mind free to

go about his affairs with greater interest, unhampered by care for the future. What gains could be secured in freeing all society from the anxieties that haunt our waking and sleeping minds and leave us entirely free to use our energy in constructive effort!

Machinery has largely aided human progress by freeing man from monotonous routine and heavy labor, thereby making possible more time to devote to constructive effort than in the days when men's whole efforts were confined to the struggle for bare existence. During the Middle Ages, walled towns, castles, and even the fortified homes of peasants illustrated the unsettled conditions of the day, and these constituted the only form of insurance the peasant had against brutal misfortunes in case of attack. The peasant was literally attached to the soil and was in constant fear of his lord, who had almost any right that one human being can possess over the person and property of another. He could not leave the land to which he was attached, he could not even marry without his lord's consent, and to attempt to change his occupation, his social status, or his belief was a crime against Church and State. Even to express a desire for a share in his own government was treason punishable by death, sometimes in horrible forms, and often preceded by torture. Indeed, belief in the divine right of kings lasted in Germany until the downfall of the Kaiser, in 1917, and still holds in many parts of the world. It took Cromwell and the king's head in England and the revolution with its constantly working guillotine in France to bring about the then novel idea of a government for the benefit of the governed, or to allow the

conception of a government of the people, by the people, and for the people. Even scientific ideas, as Galileo learned to his cost in prison, were dictated by others who drew heavily upon the past; and the Church decided one's religious belief, as many a martyr's fire, torture chamber, and dungeon testified. The convict ship *Success,* which but recently visited American cities, carried English farmers sentenced for life to the penal colonies of Australia for merely daring to raise the price of grain. The life of a subject was freely jeopardized, while his family starved, to fight battles for kings and causes in which the common man had no interest and, at times, even to bind more shackles on himself. Captives chained to the galleys were compelled to make slaves of others. Slavery here and serfdom in Russia existed within the lifetimes of persons now living. They were the conditions under which most of the population in the most advanced nations lived until very recently, and many countries still suffer under such handicaps. Until very recently men have not been burdened with problems of wealth or of the misuse of their liberties.

In the last century or two, at least in this country, man has emerged from this condition of constant fear. No longer are all his energies used in a mere struggle for existence. Luxuries undreamed of by kings a few centuries ago are commonplace to workmen of to-day. Freedom, protection of person and property, wholesome food, health agencies, education, leisure, and decent working conditions are everyday accepted facts, though we fail to think how recently they have become so. In the present day we are able to think

and plan for the future, to make material, intellectual, and moral progress undreamed of heretofore. If we sometimes misuse these newly acquired privileges, we should be profoundly thankful that we have them and we may hope that the ability to use them more wisely will soon follow. Every movement that helps to guide this progress along the ways of thrift, helps the advancement of society as a whole and makes for human coöperation.

Into the great life insurance reservoirs flow the tiny streams of savings from millions of homes all over the land; from farms and city apartments; from towns, villages, and great cities; from workman and capitalist; in sums ranging from dimes to thousands of dollars. As springs run into brooks, brooks into riverlets, and rivulets into streams that flow together, grow, and swell into the mighty rivers that bear our commerce, water our lands, furnish our power, and fill our oceans, so these combined small accumulations form a mighty financial reservoir. From it are drawn the funds that finance government, state and city, that build railroads, support public utilities, and furnish light, heat, transportation, and power to thousands of communities throughout the land. They furnish the money to buy farms, build homes, and great office buildings. They are loaned to millions of policyholders to pay premiums or for other needs and are constantly employed for the general public good. When the policies terminate by death or maturity, these funds again flow back to all parts of the land, the small checks grown large, and at a time of greatest need when death forever stops the working hand

and busy brain. It carries back to the home from which the tiny checks came, a message of hope, of homes kept intact, of mortgages paid, of children still kept in school, of sustenance and comfort in old age, of strength to take up life's burden and carry on.

Whether we consider it a parable or not, it is significant that in the dawn of history the first question that heaven asked of earth was: "Where is thy brother?" and the sneering answer came: "Am I my brother's keeper?" Society is beginning to learn that for its own selfish benefit every one must be his brother's keeper; that the health, sanitation, intelligence, and welfare of his brother, his progress and prosperity not only concern us, but benefit us as well. No longer can we be indifferent to the neighbor with a contagious disease, to the neighbor who is immoral, intemperate, illiterate, or in poverty. We are just beginning to learn that we advance our own interests best in promoting the welfare of others; that coöperation, not competition, is the true law of progress; and that in order to prosper ourselves, we must help bear one another's burdens. Looking back, not by centuries, but even by decades, we are becoming not only increasingly but rapidly socially minded. We are still broadening our conception of "Who is my neighbor?" and thinking less in narrow tribal, local, or even national terms. The good Samaritan of to-day responds to calls of humanity in the most distant parts of the earth, and an earthquake in Japan, flood in China, famine in India, or epidemic in Africa becomes the concern of all. Even in its effects on our own property we find it pays. The institution of life insurance is a vast organization helping to bring about that day.

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